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Program Makes Her
A Better Lawyer

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**Tax Reform:
Its Impact**

●
**A Small Firm
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In Exporting**



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PHOTO: T. MICHAEL SEZZA



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More and more companies, in the realization that helping employees to maintain good health translates into healthier balance sheets, are installing exercise facilities or encouraging physical fitness in other ways. The companies find that fitness lowers medical care costs and raises productivity.

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Of all the things his friends and enemies have called him, eccentric may be the mildest word applied to Arthur Jones. He scorns the experts—and why shouldn't he? He invented the Nautilus exercise machine, and he is very, very rich.

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The National Small Business Person of the year started out tinkering with scientific instruments. From that beginning, he built a firm that is second to none in innovation.

PHOTO: BRAD MARVELL



PHOTO: TED EHR



The National Small Business Person of 1985 overcame a handicap with brilliant inventions.

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When her father asked Elizabeth Gould to start an international department for their photographic supplies company, she had absolutely no experience. That changed quickly, and now the Small Business Administration has named her Exporter of the Year.

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Finding the Children 70

Thousands of U.S. children are missing. Here are pictures of some of them and a plea for help.

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An Off-Balancing Act

THE BALANCED Budget Amendment to the Constitution, like a cat with nine lives, has scratched its way back into the news. Resolutions of straightforward amendment are pending in both House and Senate; meanwhile the moribund effort to go through the back door of a constitutional convention seems to have come back to life. With deference to the well-intentioned sponsors of this foolishness, a cold-water word must be said: Knock it off. By either avenue, and in any form that has been seriously proposed, this amendment is hogwash.

It is painful to say so, for some fine people and some good organizations support the proposal—Milton Friedman, for example, and the U.S. Chamber of Commerce. The Senate version of the BBA, which has drawn the most action, is sponsored by such able gentlemen as Thurmond of South Carolina, Hatch of Utah and Nunn of Georgia. Almost no one questions the proposition that as a general rule, year in and year out, receipts and expenditures should be roughly in balance. A long time ago, when John Randolph of Roanoke was serving in the House, that neglected statesman leaped abruptly to his feet. "Mr. Speaker!" cried the Virginian, "I have discovered the philosopher's stone. It is this, sir—Pay as you go! Pay as you go!"

The pay-as-you-go principle is sound, but sound principles, in the abstract, are conversation over brandy. Principles must be applied. In this instance it is proposed to apply the principle by writing into the Constitution a piece of nonsense. I will now explain the nonsense.

In Section 1 of this noble folly, it is set forth that for each fiscal year Congress "shall adopt a statement in which total outlays are not greater than total receipts." The executive branch, you will observe, has no part in this charade. It is all the business of Congress. Is the preparation of the required "statement" a formidable task? No, indeed. Fancy that you are the Speaker of the House. Take pen in hand. Now write, "For fiscal year 1986, outlays \$970 billion." Now pause for reflection. Then complete your statement in this fashion: "Receipts \$970 billion."

There! It is done! The required statement has been prepared. It is worthless, but that is no matter on Capitol Hill. Once it is adopted, life may go on as usual. If it should transpire that in fiscal '86 the actual outlays are \$980 billion and the actual receipts only \$800 billion, no penalty of any sort may be imposed upon anyone.

Section 2 is protoplasmic jargon: "Total receipts in

the statement . . . shall not increase by a rate greater than the rate of increase in national income in the previous year." Last year a report of the Senate Judiciary Committee provided a helpful explanation of what is meant by the rate of increase in total receipts. This was the helpful explanation:

$$r = [R(y + 2) / r(y + 1)] - 1$$

Notice, if you please, the linkage to the rate of increase in "national income." What is this "national income"? It is an imaginary number. It is a kind of statistical totem, solemnly erected by assorted astrologers, poll takers, factor balancers and weight adjusters in the Bureau of Economic Analysis. I do not question the integrity of these seers and diviners; I do question their materials and their process. When I am asked to believe that the national income in 1975 was \$1,239,400,000, and neither more nor less, I must ask: Says who? Says the bureau. Next question.

The amendment comes equipped with hatches for escape. By a three-fifths vote in each house, Congress could unbalance the budget at its pleasure. By simple majority votes, Congress could raise taxes and ignore the "rate of increase in national income." All provisions would be waived in time of war.

Constitutional amendments should deal with the structure of government, such as the popular election of senators, or with the rights of the people, such as the right of women to vote. Such provisions are enforceable at law. But the writ of mandamus has yet to be drafted that could effectively compel a recalcitrant Congress to adopt a judge-fashioned budget. Are judges to substitute their own estimates of customs receipts for those of the Congress?

Some years ago a country lawyer in Virginia, impatient with algebraic folderol, came up with his own draft of a balanced budget amendment. It was to this effect: The government shall close its books at midnight on September 30. If at dawn on October 1 it should be evident that outlays in the preceding 12 months have exceeded receipts, every seat in the House and Senate shall at once be declared vacant, to be filled by elections in November in which no incumbent shall be eligible to be a candidate.

If your aim is a balanced budget, in such a draconian dream lies a road to glory. The pending resolution will get us nowhere. If you want a nightmare, just suppose—to be supposing—that the proposed amendment were in full effect today. On that calamitous thought, sweet dreams.



The amendment comes equipped with hatches for escape.

(An opposing view, "A Long Overdue Amendment," appears on page 72.)

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Helping in the Search

I was pleased to see "Finding the Children" [June]. Our company is one of the many that have tried to help in some way to return children to their parents.

Our program started in May, 1984, after an employee, John MacLean, read about the problem of missing children. The company printed fliers containing photos of missing children and mailed them, along with premium notices and claims checks, to credit unions and credit union members throughout the United States.

We discovered that another insurance company, Security Mutual, of Lincoln, Nebr., was developing a similar flier, and together we came up with the flier we both now use. We have contacted many other insurance companies to encourage them to mail fliers.

Credit unions have ordered 60,000 fliers to mail to their members. We continue to receive requests from credit

unions about how they can become involved in the program, and we encourage them to post the fliers in their lobbies, carry information on missing children in their member newsletters and sponsor a child safety day for parents and children. We sponsor advertisements with photos of missing children in credit union magazines.

We hope that our efforts will help to locate missing children. But even if they only encourage parents and children to talk about the problem and discuss precautionary measures, the program will have been successful.

TIMOTHY T. EISELE

Public Relations

CUNA Mutual Insurance Group
Madison, Wis.

The fat and the lean

As a hospital administrator, I read "Slimming Health Costs" [May] with interest and concern.

The article's statements about hospital billings have some basis in fact. Unfortunately, it mentioned only overcharges by hospitals. Audits of our own bills have revealed that there are as many omissions from patients' bills as additions to them.

Such mistakes are made because of the attention that is being provided to the patient while a procedure is being performed, especially in life-threatening situations. In such circumstances, the bill becomes a secondary matter and is thus subject to error—and I think that those priorities are right.

Preadmission certification is an excellent idea. It makes the employer and the insurance company more a part of the patient's treatment and allows them, rather than the health care provider, to bear the burden of deciding against admission.

FREDERICK L. SOULE

Administrator

Caldwell Memorial Hospital, Inc.
Lenoir, N.C.

Feeling the material

Joseph O'Neill's letter [June] refers to U.S. textile and apparel manufacturers as "the most protected of all business sectors." What protection? Textile and apparel imports grew 31 percent in 1984, after 25 percent growth in 1983; they doubled between 1980 and 1984. If that is protectionism, retailers should applaud it.

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O'Neill claims that U.S. retailers buy first from domestic manufacturers; that is not true. Visit a retail store today and be appalled, or at least impressed, by the wide array of imported clothing—not 20 percent, but some 50 percent of all apparel sold.

Retailers import not to guarantee their customers "variety, value and choice," as O'Neill claims, but rather because they can take higher markups on imported goods than on domestically produced goods.

STANLEY NEHMER
President
Economic Consulting
Services, Inc.
Washington

Down on the farm

In "Farm Problems: The Answer" [May], Sen. Jesse Helms (R-N.C.) is quoted as advocating "price supports at market-based levels" and "market-clearing price supports" for farm products. I find these statements very puzzling.

If a price level is supported, how can it be called market-based? If a price is market clearing, why does it need support?

I am an admirer of Sen. Helms, but his formula gives me an uneasy feeling. Are we hearing standard political double talk, or do we have here a contradiction in terms? Either way, the prescription does not strike me as likely to lead to any solutions to our farm problems.

CHARLES H. CHANDLER
Malden, Mass.

I have just read "Farm Problems: The Answer." As a farmer, my first impulse was to file this garbage in the wastebasket, but I believe a reply is in order.

The current "artificially high" grain prices are much lower than the prices of 10 years ago. The same is true of livestock prices. Of what other products made in this country is this true?

You deplore the lower profits of the machinery companies and the fertilizer industry. How about an article advocating lower prices for machinery, fertilizer, fuel, chemicals and so on to levels, say, 20 percent lower than those of 10 years ago? That way they should be able to sell much more than they are selling now at their "artificially" high prices.

ALAN DUFFIELD
Browns Valley, Minn.

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**NO
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SHOP?**



The Atlantic Isn't Very Pacific

BLAMING Western Europe for America's swelling trade deficit may soon be as popular in the United States as Japan-bashing.

Most economists say the strong dollar and slow recovery abroad were chiefly responsible for the United States' \$123 billion global trade imbalance last year. Some say that Western Europe's import and export policies played a significant part, too. They contend that those policies appear calculated to discriminate against American exports at a time when Europe's sales growth in bilateral trade is 10 times greater than the United States'.

Protectionist proposals in Congress and in the administration lately seem to be targeted as much at the Common Market as Japan.

There has been a dramatic shift in Atlantic trade during the past five years. In 1980 Americans enjoyed a \$17.8 billion surplus. Last year there was a \$16.9 billion surplus on the other side of the ocean.

Europeans say their success is a phenomenon of the high dollar. With an average unemployment rate of 11 percent and a budding exports-led recovery, they deeply fear American retaliation.

There are bilateral disputes over European steel exports and Common Market-subsidized food sales to traditional American export customers. There is also friction over Agriculture Secretary John Block's proposal for a new U.S.-subsidized program to recapture food markets lost to the Europeans. And Europeans are incensed over proposed legislation in Congress that would add a surcharge on foreign merchandise sold in the United States.

Two-way merchandise trade between the United States and Western Europe last year topped \$132.9 billion, compared with \$113.4 billion between the United States and Canada and \$83.8 billion between the United States and Japan. Now a U.S.-Europe trade war could be in the offing—a trade war that could cripple their economies.

Officials on both sides of the ocean recall how a similar scenario led in the 1930s to the Great Depression.

Willy De Clerq, the Common Market's commissioner for external and commercial relations, said recently he is "seriously concerned about the growing number of our bilateral differences and more significantly, the openly ag-

gressive manner by which the United States seeks to resolve them."

The Bonn economic summit in May failed to produce agreement on a new round of multilateral talks in 1986. The United States believes the round is crucial to upgrading a trading system that hampers agriculture and services exports—the two areas of greatest hope for American resurgence.



European products are gushing into the American market at a rate 10 times greater than products from the United States to the Common Market countries.

France appears to be spoiling for a fight. It derailed an American proposal to set a date for beginning the new round. President Francois Mitterand said bluntly: "There is a lot of protectionism everywhere—especially in the United States."

Senate Majority Leader Robert Dole, in reaction to the Bonn meeting, said that if the Europeans do not expedite a new round of trade talks, "There will be a wave of protectionism sweeping through Congress."

CAUGHT UP in the storm are hundreds of American companies based in Europe. They represent American investments of over \$90 billion in Europe and have a combined 8.5 million-employee payroll there. In May the heads of the European Council of the American Chambers of Commerce were in Washington to urge restraint.

Frederick Drake, president of General Electric-Deutschland, said, "We must keep our markets open." Europeans, he

predicted, will "immediately retaliate" if Congress passes protectionist legislation.

The council promulgated a position statement warning that "the economies of all nations, including that of the United States, are becoming increasingly interdependent, and this requires greater attention to the total international impact of the trade and invest-

ment policies and practices formulated and implemented by all governments."

Peaceful resolution of Atlantic differences could mean significantly expanded markets for American business.

Says a recent Commerce Department forecast: "The most important export market for the United States is Western Europe. After three years of little or no economic growth, Western Europe is now showing an increase in real rates of growth, along with lower inflation and restored business confidence. Ironically, the very export-led European recovery that has cost many American companies domestic and export sales could lead to billions of dollars in new orders for Yankee goods, especially capital goods, high tech machinery, office equipment, electrical systems and consumer products."

The big question is whether tempers can be contained long enough to allow the marketplace to perform its natural magic.

—Henry Eason

WASHINGTON LETTER

► **TIMING OF PRESIDENT REAGAN'S** tax reform plan was crucial to his overall fiscal policy goals. President waited until both House and Senate had approved budget resolutions which out deficits without raising taxes before launching his campaign to overhaul tax system. He was determined to keep issues separate, avoid risk of having Congress use tax reform as guise for raising taxes to balance budget. Now tax reform debate has moved to Congress as President rallies national grassroots support for his plan.

► **BUSINESS STRONGLY SUPPORTS** goals of tax simplification and fairness, but wants Congress to consider effect of specific provisions on economic growth. Proposals that would discourage investments or increase operating costs are being challenged by many business organizations. For example, high tech companies want research and development costs kept out of minimum tax formula. And oil companies are defending themselves from accusation they get favored treatment by showing they have paid higher tax rates in last five years than non-oil industrial companies.

► **STUDY OF ISSUES** involved in generating electricity from nuclear power is ordered by President Reagan. His domestic cabinet council, headed by Attorney General Edwin Meese III, will consider whether new presidential initiatives are in order in light of changes in technology and public attitudes. Energy Department has already submitted a bill to Congress to reform nuclear power plant licensing. Energy Secretary John Herrington, a council member, explains both moves by asking how a country like France can "come to derive 80 percent of its electricity from the atom while our industry struggles to reach 15 percent," even though, he says, nuclear power is perhaps safest energy source available.

► **ANOTHER ENERGY ISSUE**, leasing of tracts on the Outer Continental Shelf for gas and oil exploration, is under review by Congress. Some states are trying to expand their authority over lease sales beyond controls they already have on offshore development. With oil imports increasing and domestic reserves declining, Congress is being told that expanded state authority is unneeded for protection of coastal areas and would hamper rational development processes.

► **WITH A FULL COMPLEMENT** for the first time in two years, five-member National Labor Relations Board is wading into its backlog of cases. NLRB Chairman Donald L. Dotson says that despite being shorthanded, board actually has achieved 29 percent reduction in pending cases since peak of February, 1984. With arrival of Wilford Johansen, 56, a career NLRB attorney, and Marshall Babson, 39, a New Haven, Conn., attorney, both recently confirmed by Senate, board should "accelerate its decisional output," Dotson says.

► **GROWTH OF SPENDING** by political action committees is slowing. New four-volume study by Federal Election Commission of last national election shows money contributed by PACs to federal candidates in 1983-84 was up 28 percent over prior election cycle, compared with 45 percent rise two years earlier and 71 percent increase four years earlier. Total of \$112.6 million was given to candidates for Senate, House and presidency. Distribution among major parties was: Democrats, \$63.9 million or 56.7 percent, and Republicans, \$48.7 million or 43.2 percent. Incumbents received 72 percent of total, and largest single group was incumbent House Democrats, 34 percent.

► **PARTY LABELS** have been changed by several congressmen in recent cases.

WASHINGTON LETTER

Now the "rather switch than fight" movement is starting to alter shape of more and more states' politics. Consider this unlikely situation: In five states next year, probable Republican candidate for governor will be, not a GOP stalwart, but a present or former Democrat. The born-again Republicans will be trying to undo Democratic holds on statehouses in Maryland, Michigan, Massachusetts, Florida and Texas.

► CONGRESSIONAL LIBERALS have toned down proposals to overturn Supreme Court's "Grove City" decision, which held that where discrimination is shown at colleges receiving federal funds, only specific program involved, not entire school, could be cut off from those funds. Liberals' bill, amended from last year, still would greatly expand federal authority over businesses, farms, state and local governments and educational, religious and social institutions, however. Administration is backing narrower bill.

► HELP FOR BUSINESSES that need to respond quickly to news of changes in consumer price index or unemployment figures is now available electronically. Bureau of Labor Statistics is offering instant computerized news releases. Complete text of monthly and quarterly releases can be received by using a computer terminal, a modem (telephone connection device) and a telephone. A business must first sign contract, then pay fee of \$8 to \$15 for each release it requests. Bureau also distributes paper copies of releases and provides a free recorded summary of data around the clock by phone (202-523-9658).

► TWO-TIER WAGE SYSTEMS, a feature of many recent labor contracts in which new hires are paid at lower rate than incumbent workers, are on way out. Poll of 189 major employers shows most believe two-tier wage or salary system in

their contracts is temporary expedient and will be eliminated in three to five years. Study, made by Imberman and DeForest, national consulting firm, shows companies producing transportation equipment, fabricated metals and machinery are likeliest to retain tiers.

► DRIVE TO CHANGE WAGE-BOOSTING laws covering federal contractors has picked up steam in Congress. Senate vote amending Davis-Bacon and Walsh-Healey provisions in defense authorization bill in face of strong labor union challenge has brightened outlook for more general reform. Davis-Bacon is Depression-era law that requires contractors on federally assisted construction to pay wage rates largely pegged to union scales, even though 72 percent of U.S. construction workers today are nonunion. Walsh-Healey requires federal contractors to pay overtime after eight hours in a day rather than 40 hours in a week.

► EQUALITY OF OPPORTUNITY and "equal pay for equal work" are strongly supported by U.S. Chamber of Commerce, but proposals to remedy wage gaps based on "comparable worth" studies are "ill-conceived, unworkable, expensive and, in all likelihood, counterproductive," Senate Governmental Affairs Committee is told. Chamber spokesperson Virginia B. Lamp tells senators comparable worth concept should be rejected by Congress, "particularly when cloaked as a mere study to determine 'equity'."

► BACKERS OF IMMIGRATION REFORM legislation are lowering sights in third attempt in three years to enact a bill. Amnesty provisions giving automatic citizenship to longtime illegal residents have been taken out and sponsors promise to address concerns of business over burdensome paper work requirements for employers. Sen. Alan Simpson (R-Wyo.) is leading drive; House bill will not be introduced until later.

Light—Action—Memory

The optical revolution in information processing continues to gather speed. Long-distance phone companies are installing fiber optic trunk lines, computer companies are storing data in optical memory files, and entertainment companies are marketing laser-optic music and video discs.

"The great thing about optical fiber is its fantastic bandwidth," says AT&T's Robert W. Lucky. Bandwidth, a range of frequencies, determines how much information a line can carry. The transmission capacity of the silicon glass fiber has been doubling every year. Today, Lucky says, a single fiber in one second can carry up to 4 billion bits—more information than there is in a 36-volume *Encyclopedia Britannica*.

Lucky, who is executive director of communications sciences research at AT&T's Bell Laboratories, says the result will be more channels, better sound and better pictures for anyone receiving optical transmissions. Research leadership on producing purer light and clearer fibers recently has passed from Japan to the United States.

AT&T and its biggest telecommunications competitor, MCI, are laying fiber optic phone cables across the country. MCI's first long section, 240 miles between Washington and New York, went into service last year. The company has leased 7,300 miles of railroad right-of-way to add to its fiber system.

Lucky says fiber optic trunk cables will span the United States as well as the Atlantic and Pacific oceans by the end of the decade.

AT&T already is phasing satellites out of its telecommunications plans, he says, because fiber optics is the technology of the future for point-to-point communications. Two-way speech via satellite is hampered by the half-second delay caused by the great distance the waves have to travel. The delay "makes the other person sound stupid," Lucky says.

With the speed and capacity of optical fibers established, Lucky says, research now is improving the optical



A lineman splices a light-carrying fiber optic phone cable near Chester Heights, Pa. Precise joining is essential.

switches, amplifiers, tuners and other devices needed to manipulate the flood of information that fiber makes possible.

As fiber cable installation proceeds, trunks will come first, then branches, and last of all connections to individual homes and businesses. However, private networks can be put in at any time.

Cable television companies eventually will realize the same benefits as phone companies—far more channels, less interference and better pictures.

Video discs have not displaced the videocassette recorder because, despite their lower price and better picture, the buyer cannot record on them. However, the more recent audio "compact disc" or CD is rapidly replacing the conventional vinyl disc and prerecorded cassette. Both video and audio discs are "optical"—a beam of laser light writes the information on the disc, and another laser beam reads it.

Much more information can be stored in a small optical space than is possible with magnetic methods. An example of this is the membership "Lifecard" just introduced by Blue Cross and Blue Shield of Maryland.

This card looks like any credit card or magnetic bank card, but its laser-optic memory strip can store far more information than any magnetic card—up to 800 pages. For now, it will hold the member's medical history, his benefits,

his photograph, signature and security codes. Special recording machines at hospitals can add data.

Computer makers would dearly love to adapt optical technology to the ever-increasing demands on them for greater data storage capacity. The stumbling block has been that optical discs cannot be written on twice.

Even so, FileNet Corporation, of Costa Mesa, Calif., has produced an optical disc system that provides on-line mass storage and retrieval of up to 20 million pages per disc. The system uses rapid page-image scanners, remote terminals and laser printers. It is aimed at providing instant document retrieval for banks and insurance companies with massive filing needs.

Technology Notes

AT&T has won a contract for up to \$290 million from the Federal Aviation Administration for an upgraded radio microwave network for the nation's air traffic control system. . . . Writing Consultants, of Fairport, N.Y., is marketing Word Finder, an electronic thesaurus for use with a variety of word processors. . . . Dow Jones & Company has announced DowPhone, a service that allows any push-button phone to be used to get immediate stock quotes or other business news. . . . Credit Vending, Inc., of Phoenix is selling a "smart" vending machine that will rent and sell prerecorded videotapes to anyone with Visa or Mastercard. The machine can dispense tapes and accept returns, compute charges and verify credit. . . . Half the companies that use word processing now choose personal computers for the task, reports the Administrative Management Society. . . . Profits in the semiconductor industry are directly related to how much a firm invests in research and development, according to a Columbia Business School study of the top firms. The leading company, Intel, has invested the largest percentage of revenues and realizes the largest gross margins.

—Harry Bacas

Innovation Pays Dividends

Many of the companies awarded Small Business Innovation Research grants have scored big wins, according to a study by the accounting firm of Price Waterhouse.

The SBIR survey, covering 179 research and development projects at 131 companies, finds these firms not only generating solutions to government research needs but applying the discoveries commercially.

Under the SBIR program, federal agencies with budgets of \$100 million or more for outside research must set aside a certain percentage for contracts with small firms.

The survey, done for the Small Business High Technology Institute, showed:

- An average increase of 25 percent in personnel, from 28 to 35 workers, at the SBIR contract recipients.
- A 62 percent jump in the number of firms reporting domestic sales over \$1 million and a 50 percent increase in the number reporting more than \$10 million.
- Private industry or government sources have provided additional R&D financing for 34 percent of the projects.

Greenbriar Systems, a northern Virginia firm that develops automated computer systems for specialized application, has received five SBIR awards totaling \$900,000 since 1982. They have spelled the difference between success and failure in the eyes of Greenbriar's president, Joe Lahoud.

"I seriously don't think we'd be in existence today if it were not for the SBIR program," he declares. "It has given us the credibility to attract potential private sector financing." It has also led to an increase in Lahoud's work force from four to six people.

Help With Financial Records

Bank of America has added two new publications to a series offering instructional help to the small business owner.

"Financial Records for Small Business" is a 19-page accounting primer that gives entrepreneurs a working understanding of the accounting process and explains in jargon-free language



Joe Lahoud heads an SBIR contract recipient now designing software to make nuclear plant inspections more reliable.

how to create an internal accounting system. The report contains examples of records any business needs to keep track of its operation.

Thorough financial records can help an owner monitor cash flow, catch shortages, spot trends or trouble and plan for the future with factual information, says the report. And they are indispensable for public stock sales, justifying tax deductions and credits, or selling the business at a fair price.

Another newcomer to the series is "Personal Guidelines," a 16-page booklet that describes procedures for hiring, managing and discharging employees. A three-page chart outlines federal and state employment regulations that affect personnel activities.

To obtain a free list of available titles in the series, write to Small Business Reporter, Bank of America, Department 3120, P.O. Box 37000, San Francisco CA 94137. Each report costs \$3.

Worth Noting

• Once-depressed Michigan has made a pool of \$450 million available to small or venture capital firms, and the newly created Michigan Strategic Fund will leverage additional private loans. The state's Product Development Fund will soon have \$9 million at the disposal of small and medium-sized companies.

• The Oregon Innovation Network, a nonprofit group formed last year to promote new business development in the state, has released *The Oregon Entrepreneur's Handbook*. Chapters address such topics as raising capital,

business plans, marketing and personnel. The book is \$20 a copy. Write to the Oregon Innovation Network, 2816 N.E. LaPoint Court, Bend, Ore. 97701, or call (503) 382-4100.

• Bank of America has announced a renewed focus on small business. It will offer firms with annual sales of up to \$10 million in California a comprehensive range of products and services, among them lines of credit, cash management and employee benefit services.

• The Money Store Investment Corporation of Union, N.J., was ranked No. 1 for the second consecutive year as a lender of Small Business Administration loans in 1984. It processed more than \$70 million of these loans.

State Business Guides

If you own a business or are thinking of starting one in Massachusetts, Illinois, Indiana, Oklahoma, Pennsylvania or Louisiana, you are in luck. Michael Jenkins, a lawyer and accountant, and the partners of Arthur Young, the national accounting and consulting firm, have written guides for each state, called *Starting and Operating a Business in . . .* (There are already guides for California, Texas, Florida, Kansas, Georgia and Colorado in the series.)

Entrepreneurs can learn how to cut through government regulations and how to shelter income from taxes. There are chapters on buying an existing business, federal and state licensing requirements and choosing the legal form in which the company will operate; on cutting red tape and on tax saving strategies.

Included are copies of the most widely used official forms required for newly formed businesses, pre-addressed post cards to government and private agencies for their booklets, worksheets and a separate index devoted to state laws and taxation policies.

Each guide can be purchased for \$26.95 in bookstores and some office supply stores, through Arthur Young's state offices and by telephone from the publisher, Oasis Press, at (800) 228-2275; in California, (800) 221-4089.

—Mary-Margaret Wantuck

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*Ron Smith, President
Bevco/Kenny's Ice Co.
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"A Ford F-600 would give us 4 or 5 mpg," says Ron Smith. "The Ivecos give us 14 to 16 mpg. And these are reefers with high-powered air conditioners running off the engines and always loaded to the max.

"And fuel isn't the only thing Iveco has saved us. There's cargo. Ice isn't easy. It's heavy and very perishable. A breakdown can turn our product into a damp spot on the shoulder. I used to have incredible breakdown problems, but since we got our eight Ivecos, we've had nothing worse than a flat tire.

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Ron Smith isn't the only smart businessman who feels this way. In fact, last year Iveco was the best selling European nameplate in the U.S., outselling Mercedes-Benz and Volvo.

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There's Life in the Old Expansion

Though business conditions in the first half of the year were marked by the slowest growth since the current expansion got under way 32 months ago, there is still plenty of life in the expansion, says Ben E. Laden, president of the National Association of Business Economists.

Laden, who is chief economist for Baltimore's T. Rowe Price Associates, an investment firm, says that "several of the indicators normally seen before a recession are not now present"—among them, rising interest rates and higher inflation. Interest rates fell during the year's first half, and inflation remains subdued.

Signs of continued prosperity include employment that has been rising at a 3 percent annual rate while the headline-grabbing unemployment rate has been stuck above 7 percent. With more people on the job, total spendable income is also up, as reflected in respectable retail sales gains. Laden cautions that some of those gains are at the expense of reduced savings and increased consumer debt, which could spell trouble ahead.

However, he says the principal causes of the next recession will most likely be related to financial imbalances resulting from large deficits in the federal budget and foreign trade.

The recession's timing, Laden continues, "may depend on the level of economic growth abroad and positive action by Congress to restrain budget deficits."

Economists say a smaller budget deficit would spur the economy by bringing interest rates down further, and faster economic growth overseas would generate more demand for U.S. exports.

A recent survey of National Association of Business Economists members supports Laden's view that a recession is not at hand. Only 13 percent of 400 economists polled expect a recession to hit before the end of the year, while 59 percent predict a recession next year and 29 percent forecast that the expansion will continue uninterrupted into 1987 or beyond.

Richard Rahn, the U.S. Chamber of Commerce chief economist, whose

track record in predicting twists and turns of the current business cycle is better than the pack's, is more bullish than most of the NABE members polled.

Rahn says the economy will grow a healthy 4.4 percent in the July to September quarter while those harbingers of recession, rising prices and interest rates, will continue to behave. He ex-

pects an import surcharge, 87 percent frown on a return to the system of fixed exchange rates in place until a decade and a half ago, and 84 percent oppose Federal Reserve intervention in foreign exchange markets.

The administration is also against each of these measures.

Fifty-three percent support the administration's steadfast opposition to raising taxes as a way to reduce deficits.

And a solid 76 percent say the Federal Reserve's monetary policies are "about right."

Do GNP Figures Lie?

The President's Council of Economic Advisers says that the actual rise in GNP over the past three years would have been as much as one percentage point higher than reported if the Commerce Department had adjusted its measure of economic output to reflect falling prices and quality improvements in computers bought by business.

If adjusted for such changes, official statistics would have shown the economy contracting 1.1 percent in 1982 and growing 4.7 percent in 1983 and 7.8 percent last year.

Until recently, the failure to make frequent adjustments to the relative contribution that computing equipment sales make to the economy was not all that significant. Now it is, economists say. Why? Because lower prices and better quality of computing equipment are coming at a time when goods producers and service firms have sharply increased purchases of such equipment. Computers now account for about 10 percent of business' durable goods purchases—about five times the level of a decade ago.

Chamber economists Rahn and Graciela Testa-Ortiz say that the understatement of economic growth calls into question a number of government indicators of economic well-being that are based on measurement of GNP. "The error in the reporting of GNP feeds through to other statistics, such as productivity, the producer price index, industrial production and retail sales," say the Chamber economists.

—Peter A. Holmes



National Association of Business Economists President Ben E. Laden sees no recession in the immediate future.

pects consumer prices to rise less than 4 percent—about last year's pace—while interest rates stay on their current downward path.

For the year, the gross national product will rise 3.5 percent on an inflation-adjusted basis, Rahn says.

This figure is a bit higher than the 2.9 percent median forecast in the business economists poll, but lower than the 3.9 percent the administration forecast last winter.

Not only is there no recession in Rahn's 1986 forecast, but he sees the economy picking up momentum and growing 4.3 percent next year. His one caveat: Congress must not approve higher taxes.

Though the NABE economists, who are employed by a cross section of industrial, commercial and financial institutions, are concerned about the federal budget deficits, they continue to give strong support to Reagan administration and Federal Reserve Board economic policies.

Of the various responses to the big trade deficits being kicked back and forth on Capitol Hill, for example, 91 percent of the economists polled oppose

PHOTO: JUDITH E. SLOAN

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How Fitness Works Out

Helping employees keep fit improves both health and job performance, companies find.

By Bob Gatty

S EVEN HUNDRED EIGHTY men and women ran through the Virginia countryside in May in a relay race sponsored by the Xerox Corporation.

At Mannington Mills, Inc., Salem, N.J., executives often invite visitors into their company's fitness center for a volleyball game or a workout on exercise equipment.

At Conoco, Inc., headquarters in Houston, Patricia H. Chicoine, an attorney in the company's legal department, takes a lunchtime jog in the new \$3 million fitness center. "It makes me a lot more alert—and more productive," she says.

A Cedar Rapids, Iowa, advertising agency, Creswell, Munsell, Fultz & Zibel, has established a fitness center that it hopes will make its 173 employees more creative and productive.

Universal Gym Equipment, also of Cedar Rapids, is approaching \$300 million in annual sales. It reports sales have been rising an average of 23 percent for the past five years.

That sampling of activities at companies of different sizes spotlights the double-barreled impact the fitness boom is having on American business.

A fast-growing number of companies—more than 50,000 by one recent

count—have established fitness programs for employees by providing in-house facilities and activities or by offering incentives to participate in such programs elsewhere.

The companies generally find there is a substantial return on their investment. William B. Baun, manager of health and fitness at Tenneco, Inc., and an expert on business-sponsored fitness programs, says experience thus far clearly demonstrates that exercise programs can pay off in reduced health care costs and absenteeism and in higher morale and productivity.

The fitness boom's second impact on
NATION'S BUSINESS • JULY 1985



volves many businesses. Taking part in the Team Xerox marathon, in addition to employees of the sponsoring company, are employees of companies and organizations that are Xerox customers and potential customers.

The Virginia race, held at the Xerox Learning Center in Leesburg, is one of 11 regional contests around the country, with winning 10-person teams com-

porate food and fitness centers. It is a model many other companies have followed.

The two-story, 100,000-square-foot facility in Houston, where Tenneco, like Conoco, is headquartered, is open exclusively to Tenneco employees—everyone from mailroom clerk to board chairman. The center, which cost \$11 million, includes indoor gardens drip-watered from above to simulate rainfall, employee and executive dining areas, four racquetball courts, dressing rooms, Nautilus exercise equipment, a sauna and whirlpool bath, and a conference and training center for 264 people. A fifth-mile, glass arcade jogging track belts the entire facility. There is an executive chef and a health staff that includes a doctor, nurse, physiologist and eight fitness trainers.

And there is the computer.

Entering the center, a Tenneco employee inserts a metal card into a computer. When the employee finishes a workout, he reinserts the card and punches a description of what has been done. The computer prepares a "fitness profile" that includes how many calories have been burned off in exercise and how far the employee has to go in his own specially designed program. Every month the employee receives a

printout of progress to date. If there is too little use of the fitness center, workout privileges may be lifted.

"The program was developed to preserve Tenneco's most important asset, its innovative skilled employees," says Baun. "As individual employee health habits change, Tenneco becomes an organization of healthier people. An organization of healthy people creates a positive work environment in which the major company goals may be achieved."

BAUN REPORTS that research conducted at Tenneco shows that "in a corporation with a health and fitness program, a positive association exists between above-average job performance and exercise adherence, and a negative association exists between poor job performance and [poor] exercise adherence."

Further, the study strongly indicates that exercise reduces health care claims. The average claim for nonexercising females at Tenneco was \$1,535.83, more than double the \$639.07 average for those who exercise. For



At Conoco's Houston headquarters, employees in many walks of corporate life have been bitten by the fitness bug. Division manager Larry Getz is flanked on the exercycles by computer analysts Kathy Butera and Scott Davis. Taking a stress test is John Shoemaker, a lawyer.

peting for a national Team Xerox title in San Francisco.

Xerox thinks the competition is a profitable alternative to promoting its products at dinners or cocktail parties. Creating goodwill and interest in the company, the competition echoes a current marketing campaign's theme that various Xerox products make up a team that helps a business function better.

A General Electric Company group from Philadelphia won this year's event in Virginia, beating out teams from the Naval District of Washington and the Federal Bureau of Investigation.

Tenneco's Baun works for a chairman and chief executive officer who in 1979 underwent a double bypass operation on blocked arteries leading to his heart.

James L. Ketelsen's doctors said lack of exercise and the wrong food were contributing factors to the condition that necessitated the surgery. The diagnosis was not lost on the then-48-year-old executive.

Soon after his recovery, Ketelsen enthusiastically launched one of the nation's most complete and elaborate cor-

business is the sharp increase in sales of companies that are providing exercise equipment, companies like Universal and Nautilus, Inc. (see article on page 26). Their products are being purchased not only for corporate fitness programs but also for the growing numbers of fitness clubs and home gyms.

The boom has become so much a part of the national consciousness that it is being institutionalized: A U.S. Fitness Academy is being established near Los Angeles by the President's Council on Physical Fitness and Sports, which former professional football coach George Allen heads as a volunteer.

Allen is seeking strong business support for the academy, which will train instructors and serve as a national clearinghouse for information. He speculates that some instructors trained there might end up working in business-sponsored fitness programs.

Among the contributions being sought are in-kind gifts from companies that make equipment for exercise facilities.

The Xerox Corporation's race also in-



This General Electric team won a Xerox marathon in Virginia, one of a series that Xerox puts on around the country as a sales promotion. Holding the trophy: marketing manager Bill Conroy. Second row (from left) Laura Gaydos, Bill Heidelberg, Dee Grace. Third row: Steve Rogers, Jim Rodman, Chris Stanley.

men, the average claim for nonexercisers was \$1,003.87, compared with \$561.68 for those who exercise.

Robert D. Ealing, manager of health and fitness at Conoco, agrees that expenditure of funds for a fitness program pays off in healthier and more productive employees. He has launched a study to prove it.

Patricia Chicoine, who uses Conoco's Houston facility with regularity, says she never takes time off for sickness. "A lot of people find it does make them feel better," she says. "They start to look better, and this makes them happier about themselves. They are then happier in their job."

Ealing says 1,800 of Conoco's 2,400 employees at Houston have registered to use the center. Since there are lockers for only 1,200, there is a waiting list. Like many other companies with fitness

programs, Conoco tests participants when they begin. The purpose is to determine what specific workout program is best for them. The facility includes a 13,000-square-foot cardiovascular center, an exercise room and health education classrooms for courses on such subjects as stress management and weight control.

"Our emphasis is on a comprehensive wellness program," explains Ealing. "Our goal is to have a positive effect on attitudes and productivity of our employees."

Conoco permits employees to use the center during working hours at any time, with their supervisor's approval. It is understood that they will make up the time at some point. Classes are not scheduled during regular working hours, except for lunch.

George Allen says it is not necessary

to spend millions on a fancy fitness center to get results. Moreover, he adds, "a set of weights, the other equipment, lasts forever. It's not something you have to go out and buy again. Once you have it, you have it. The cost is peanuts." Plus, says Allen, a corporate fitness program makes employees more alert and builds teamwork. "That's the first rule of winning—getting everybody to work together," he contends.

Dr. Robert C. Karch, executive director of the National Center for Health/Fitness at American University in Washington, has launched a three-year research project that he hopes will show there is a return of \$3 for every \$1 spent on health and fitness.

HOWEVER, Arthur Williams, president of Mannington Mills, a producer of vinyl flooring, ceramic tiles and carpeting, says the return on his company's \$1.8 million investment in a new physical fitness center is "a secondary concern to us."

Says Williams: "One thing we can do for our employees is to make them healthier and happy. We are interested in our employees."

So far, Williams says he is "dumbfounded" at the response to the center, which is open not only to employees, but also to their families and to retirees. About half of the eligible 1,600 Mannington people are participating. "The spirit around here is amazing," Williams says.

Scott Smith, executive vice president at Mannington Mills, is a testament to the virtues of corporate fitness. Smith, 37, his wife and two sons all use the facility. Smith works out on the Nautilus equipment three times per week, jogs, plays in a basketball league and is an excellent tennis player and golfer. He is especially excited about a golf driving range that just opened at the Mannington center.

"Using the center makes me feel better," Smith says. "It wakes me up and gets me going, particularly in the afternoon when you tend to slow down. It improves my job performance tremendously."

President Richard D. Meyocks of Cedar Rapids' Creswell, Munsell, Fultz & Zirbel says it is hard to figure just how much his ad agency has invested in its overall fitness program. Still, he is looking for bottom-line results because of the increase in enthusiasm and energy and the reduction in tension that exercise offers.

"Certainly, our program is part of our overhead," he says. "But what we are selling is time and talent. If we can make our people more productive and provide better value, then both we and our clients benefit."

In Amarillo, Tex., T. Boone Pickens, Jr., founder and chief executive officer

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Pickens says he likes his employees to look the way Mesa's annual report reads—lean, efficient and healthy.

In Columbus, Ohio, Franklin International, a manufacturer of commercial and industrial adhesives, opened a 3,000-square-foot fitness center 18 months ago for its 360 employees. The firm recently surveyed the 129 workers who use the center regularly. It says 98 percent had fewer sick days off than before the facility opened.

Franklin's center includes 19 pieces of Nautilus equipment, six computerized exercise bikes, four treadmills and two computerized test bicycles used to check on employees' fitness.

CORPORATE DESIRE to keep health care costs down is a major reason why corporate fitness programs are growing, says Marcia Fein, president of the Association for Fitness in Business and fitness manager for PepsiCo, Inc. Her company has a \$2 million fitness and health complex at its Purchase, N.Y., headquarters, and it has satellite programs elsewhere.

Dr. Neil Sol, director of health promotion for the Methodist Health System, Memphis, a nonprofit hospital chain, says many companies are deciding to use outside fitness facilities—and hospitals are logical locations.

"Realizing there is a market here, hospitals are diversifying and allowing their personnel to provide broad services to corporations," says Sol. With room occupancy rates down, many hospitals have space that can be trans-

formed into exercise facilities. They already have some of the equipment. And they have trained personnel who can give courses in nutrition, stress management and other subjects aimed at overall wellness.

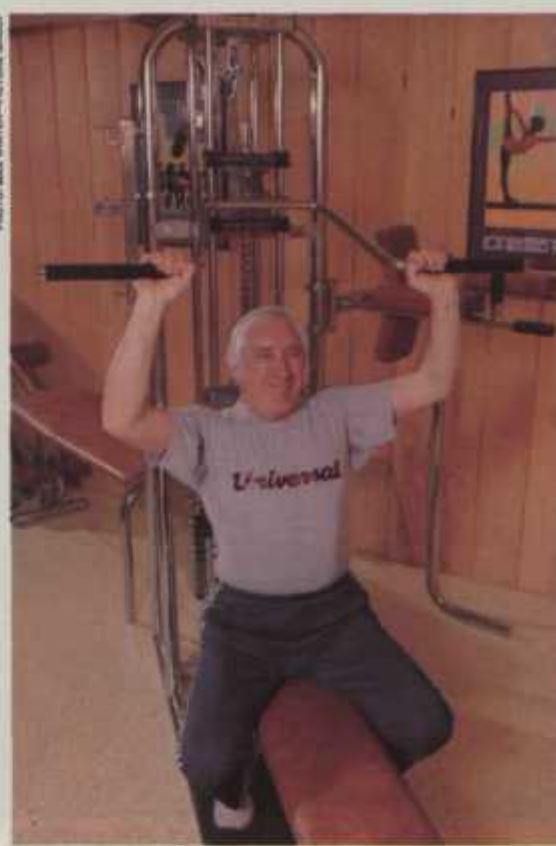
Sol, who will succeed Fein as president of the association—its 3,000 members are company fitness managers—says its objectives are to encourage corporations to develop fitness programs in some form, to set standards, to develop certification of professionals and programs, and to improve cooperation within the field.

Private health and fitness centers often offer special corporate discounts, and many companies pay membership fees for employees or at least contribute to the cost. Some experts say this could be discouraged if Congress decides to tax such employee benefits as income.

However, as the fitness boom continues, companies like Universal are experiencing rapid growth.

Joe Connaughton, the company's president, says Universal's customers include corporate fitness facilities, commercial fitness centers, organizations like the YMCA and schools. He says the business segment of the market and commercial clubs are the two fastest growing sectors.

"We sell to the largest corporations down to the very small companies, some with 10 or 15 employees," says Connaughton. "Many a small company will buy one of our multistation machines and set up a well-rounded facility for \$3,500 to \$10,000."



Joe Connaughton, president of Universal Gym Equipment, works out at home with some of his booming company's products.

What does that buy? Connaughton says Universal's Power Pak 400, a multistation machine that permits scores of exercises, sells for \$3,500. Add a \$2,500 treadmill, a \$1,450 rowing machine and a \$1,900 stationary bike, and the tab approaches \$10,000.

Much of the equipment offered by companies like Universal is becoming increasingly sophisticated. For example, Universal's rowing machine for the commercial market can electronically calculate your efforts against a mythical opponent's. The user keys in the

Exercise: A Source of Strength on the Job

It would be difficult to find a more fervent fan of fitness than Patricia Chicoine, 34, the woman on the NATION'S BUSINESS cover this month.

Chicoine's work as a lawyer for Conoco in Houston involves representing the company in legal matters surrounding offshore oil production and exploration. Those matters can get sticky.

"My job has plenty of pressure," Chicoine says, explaining that she frequently must function "in a frenzy" for an hour or more before the pressure slackens.

"I work in spurts," she says, "and I couldn't keep up the pace if I didn't

feel good. But I do feel good, and it's because I'm fit." Not only is her health first-rate, but "I can get by with a lot less sleep if I exercise. And if I don't work out regularly, I'm not as alert."

Exercise, she says, "makes me tune in better to what is going on around me. I think that alone makes me a better employee."

Chicoine says fitness has been essential to her lifestyle since she was a child. "Even before the fitness trend hit," she says, "I was active as a swimmer and a runner. Staying physically fit has always been a part of my makeup."

She jogs on a track at the Conoco center, attends exercise-technique classes there and keeps up with her swimming at a pool not part of the center.

"All together, I exercise six or seven days," she says. "On the seventh day, I rest."

Chicoine earned a journalism degree from the University of Illinois in 1973 and worked in that field before entering the University of Houston Law School in 1976. She went from there to Conoco.

She is the mother of one child, Jason, 9, a Little League first baseman.



Arthur Williams, president of Mannington Mills, says the primary concern in launching a fitness program was employee health and happiness. Williams, here at an aerobic dancing class, is happy with the program's results.

distance of the race and the time in which the opponent will finish. He then races against that time.

It is difficult to determine growth rates industrywide for commercial fitness centers using equipment like that made by Universal and Nautilus, because many of the companies that run the centers are privately held. However, Chairman Robert E. Mullane of the Bally Manufacturing Corporation, Chicago, which operates the Health and

Tennis Corporation of America, estimates the industry has grown 10 percent annually over the last 20 years.

In 1970 the Health and Tennis Corporation had 57 fitness clubs. Today there are 323. In 1980 there were about 1 million members. By 1984 that had grown to 1.6 million, generating \$335 million in revenue and \$85 million in gross profit.

Such centers have "become part of the American lifestyle," says Mullane,

"and the reason is more than just trying to stay fit." Many men and women go to the centers not just to work out, but to socialize and meet other people, he says—"they enjoy the ambiance, the relaxation, the social contact."

Belonging to a center can be expensive—\$4,000 to join the swanky Vertical Club in New York City, plus annual dues of \$1,000, for example. Other less posh clubs, whether in a big city or a small town, are less costly. Some are in the \$400 to \$500 per year range.

"The clubs are changing rapidly," says Universal's Connaughton. "They are getting away from single location facilities that have just one type of exercise equipment to much more complete fitness centers. The health club is becoming the singles meeting place of the '80s and '90s."

"People are not content just to have one item. They want aerobics, swimming pool, racquetball, a steam room, sauna, a place to sit and have wine, beer and Perrier and a health food salad. It's a place to go and meet. What used to be the old body-building gym is becoming a very minor part of the picture."

SOME INDUSTRY experts believe that the growth in company health facilities and the popularity of fitness clubs have had a spillover effect on the booming at-home market.

"Once people learn how to use the equipment at a club or a company center, they want it at home for the rest of



Mannington fitness expert Jim Smith teaches Irene LeNoir new exercises.

PHOTOS BY FIELD



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the family," says one manufacturer of commercial fitness equipment.

Larry Brown, vice president of marketing for Vita-master exercise equipment, produced by Allegheny International Exercise Company, Lencolnton, N.C., believes the spillover effect has been from home to workplace, however.

"Consumer home fitness has been a substantial business for a number of years—long before the corporate fitness boom," he says. "And it has been a factor in the corporate boom. Let's say the president of a company embarks on a home fitness program for himself and his family. He says, 'Hey, this is going to be good for my employees.' So he implements a program at work."

The Sporting Goods Manufacturers Association says that in 1983, the latest year for which complete data are available, consumer purchases of multipurpose home gym equipment reached \$960,227,000—up 33 percent from 1982. (It is estimated that the figure grew to \$1.2 billion last year.) Forty-seven percent of the equipment was bought in department stores, 23 percent in discount stores and 6.4 percent through sporting goods stores.

Typically, household income among purchasers of such equipment was \$35,000 and up, and most buyers had been to college.

There is concern that some of that mass of home equipment may be unsafe. The Consumer Product Safety Commission reports that more than 18,000 home exercisers suffered injuries serious enough to require emergency room treatment in 1983, the latest



Pro football's George Allen (shown jogging in Washington) is soliciting business support for an academy to train fitness instructors.

year for which figures are available. That was a 75 percent increase over 1981.

Experts emphasize the importance of scrutinizing equipment for evidence of flimsy construction and of carefully following instructions for the use of equipment.

The trend toward fitness awareness has created new business opportunities. For example, Pro Form, a thriving Beaverton, Ore., company, was started three years ago by two entrepreneurs. The company makes rowing machines, a home gym called the Kong and an in-home aerobic fitness machine called the Aerobot.

Also, the trend has spurred imports.

More than 90 models of rowing machines, many of them imported, were displayed at a recent national sporting goods retailers' convention in Dallas. The year before, only three models were shown.

Some experts acknowledge that people could shape up without fancy equipment. Says Jerry Wilson, chief executive officer of Soloflex, Inc., which makes home body-building machines, "If a person wants fitness, he doesn't need equipment. He can run or swim or do jumping jacks. But people won't do that. They're lazy."

They also like gadgets.

AMF America has just introduced the Benchmark 920 electronic rower to the home fitness market. It is equipped with an indicator showing energy spent in calories, amount of resistance to the oars and time spent working on the machine.

The user can row to one side or the other, as well as back and forth. The machine can also be used for exercises known as bicep curls or reverse curls. The price tag: \$595.

IT USED TO BE that when you worked out, you wore gray sweat pants, a sweatshirt and a pair of sneakers. Today sports fashion is big business, with outfits sometimes costing more than a good suit. Sneakers? Today's running shoes can run you \$100 or more.

But not just apparel and indoor workout gear are benefiting from the fitness boom.

The National Pool and Spa Association says pools for swimming laps are now in big demand among homeowners who once might have installed a kidney-shaped pool that wasn't good for much more than floating around.

Typically 40 to 50 feet long and 8 to 10 feet wide, the pools range in cost from \$6,000 to \$20,000, depending on how fancy they are. You have limited space? There is a much smaller pool that gives you a workout by allowing you to swim against the force of jets. "It's like a treadmill in the water," says Lester Kowalsky, the association's president. In addition, the water is heated to 104 degrees, so the pool doubles as a hot tub. The cost: \$7,000 to \$10,000.

Kowalsky says about 12,000 in-ground lap pools were sold last year to the residential market, up from a handful in 1980. Those statistics are another indicator of the extent to which Americans are taking part in the quest for fitness.

Says George Allen: "Fitness is three things: Strength, leadership and survival. The more problems I have, the more I work out. It gives me energy, encouragement and motivation."



To order reprints of this article, see page 65.

"Win-Win Situation"

Dr. Robert C. Karch, executive director of the National Center for Health/Fitness at American University in Washington, offers these guidelines for companies considering starting fitness programs:

- Consider all options. It might be most cost-effective to contract out rather than build in-house facilities.
- Consider the benefits to employee families, as well as to employees.
- Determine your objectives. Do you want to provide simple recreation or change lifestyles?

- Consider including programs in stress management, weight control and cessation of smoking.

- Be sure to test employees, before they begin an exercise program, to avoid unnecessary risks and to make certain that exercises are appropriate for individual needs.

"It's a win-win situation," says Karch, who serves as a private consultant to businesses establishing fitness programs. "It's a cooperative effort between the employer with the means and the human resource, the employee."

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A Driving Force Goes His Own Way

Nautilus' Arthur Jones may leave others fit to be tied, but he has made a fortune out of fitness.

By Del Marth

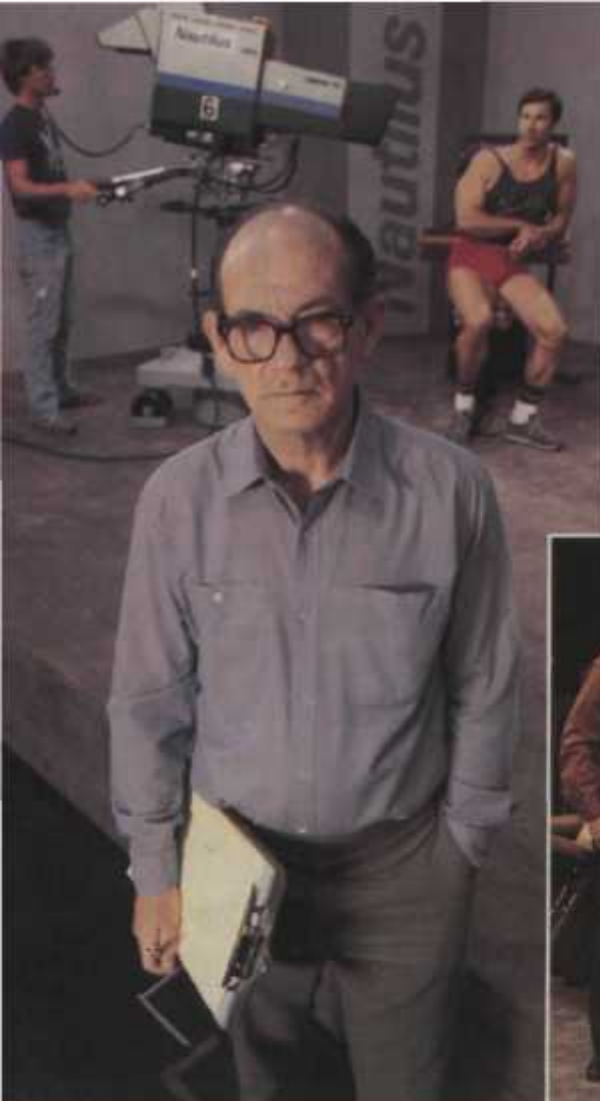


PHOTO: NIGEL GREENWOOD-LANSON

Nautilus equipment maker Arthur Jones (he is with his fifth wife at right) is expanding into TV with his own network.



PHOTO: J. MICHAEL KEAR-LANSON

AS A KID, Arthur Jones would sneak around the back of an Oklahoma barn to lift a barbell, dreaming of becoming a facsimile of Atlas balancing the world on his shoulders.

He never made it.

"By other people's standards, I produced unbelievable results," he recalls. "My legs grew rapidly. My arms exploded into double their size. But some sections of my body did not grow." Jones concluded his genes were wrong.

Also wrong, he decided, was the equipment. A barbell was a static weight; it did not become lighter or heavier to fully exercise a muscle as the muscle moved. It did not offer variable resistance.

"I realized all this in the 1930s," Jones says. "It doesn't take me years to discover that something doesn't work. If something doesn't work, I will try something else. Eventually, I will discover either something that does work or a bunch of things that don't."

In this case he discovered—more accurately, created—a variable resistance exercise machine that did work. The discovery came after some 30 years of building dozens of unsuccessful con-

traptions in his spare time. Full time, he made and lost in those years more than most people earn in a lifetime—starting an airline in Latin America, dabbling in the import-export business, transporting exotic animals into the United States and selling them, and shooting wildlife films in Africa.

"In 1968 I came back from Africa, broke—a half million in debt, no credit," he says. He also came back with a sketch, his latest, of a full-range exercise machine based on a variable resistance principle that was to make him millions.

"I borrowed \$2,500 from a sister, sold a wildlife film to CBS and spent it all on hand-building the machine," he says. "I also wrote an article for a physical fitness magazine saying that people in the body-conditioning business didn't know what they were doing. I expected a barrage of slings and arrows, if the article got published.

"It was, but the response was just the opposite. People tracked me down seeking answers to exercise problems they had encountered."

The fitness crowd also wanted Jones' machines. So he set up shop in Lake

Helen, Fla. (a site he chose because he likes warm climates), near Ocala. In 1970 he incorporated as Nautilus Sports/Medicine Industries. The stock is closely held—Jones is close-mouthed about how many shares, if any, are owned by anyone besides himself.

Today the Nautilus empire, with manufacturing plants in Independence, Va., and Mexia, Tex., sells more than 30 different machines designed for specific parts of the body—hips, legs, torso, arms, waist and neck. They bring in a weighty \$400 million annually.

"Since his machines came on the market, Jones has been the biggest driving force in the fitness industry," says Joe Cirulli, a fitness center owner in Gainesville, Fla. "While almost everyone else was selling hype and protein supplements, Jones was selling equipment that worked. He increased legitimacy in the exercise field."

Jones' personal cache is estimated at \$125 million. "How much I am worth is nobody's business," says Jones, who also will not admit to being in his early 60s. "My age is nobody's business, either."

And if he could manage it, he would also hide his elephants from prying "dumb-dumbs," a favorite description though one of his least graphic. But 90 elephants are highly visible, as are his breeding pair of rhinos, an 18-year-old gorilla named Mickey who whiles away time watching the Chicago Cubs on television, scores of record-size snakes and pits full of yawning crocodiles, including the world's biggest at over 17 feet.

All live with him in a sparsely settled area north of Ocala, at a place he calls Jumbolair. It is a 600-acre compound dissected by a mile-and-a-quarter private runway to accommodate two Boeing 707s bearing the Nautilus sea-

NATION'S BUSINESS • JULY 1985

shell logo. When pilot Jones revs up a 707 for takeoff, its four engines rattle the china and crystal chandeliers in his adjacent 14-room mansion.

For many of the elephants, revving up the 707s must bring back memories. Last July, Jones flew 63 of them out of Zimbabwe on a 22-hour, high-altitude safari to Jumbolair.

"I did it to save them from being killed," he says. "I love elephants, and I don't want to see the species become extinct."

But he admits to another reason, after explaining that nobody, not even Arthur Jones, "keeps 90 elephants as a hobby."

They, and his other exotic acquisitions, are used for research. "And that is all I will say on that subject, except to explain we do not do any vivisection or other cutting up."

A raised eyebrow sets Jones off on a favorite subject, honesty:

"I tell the truth, and it shocks people. The Nautilus company is synonymous with honesty. You do not see Nautilus selling products of no value—health foods, gadgets—or making impossible claims."

"Because I am against making money? No, because I am against fraud, against deception. I am honest beyond your ability to comprehend the term."

JONES EXPECTS to be believed when he says only three things are of value in his life: "Younger women, faster airplanes and bigger crocodiles."

To disbelieve him would be to ignore the evidence. Nobody has bigger crocodiles. Few people own faster airplanes. As for younger women, he has been married five times, each spouse a teenager when she became Mrs. Jones.

Terri, 23, his present wife, models using Nautilus equipment and copilots his Boeing 707s.

Jones knows some people have trouble dealing not only with the age disparity in his marital life, but also with his wealth: "People perceive me as being successful and as having a young, exceedingly beautiful wife; that is enough to turn off a lot of people."

If so, many of them hide their feelings. Each year more than 50,000 fitness professionals—doctors, coaches of professional, college and high school teams, trainers, fitness center owners and instructors—pay to attend seminars at Lake Helen's Nautilus headquarters.

With his 200-passenger 707s, Jones flies groups of "students" to the seminars, making pickups at airports around the country.

Students come to learn how Nautilus exercise machines can develop athletes' muscles and rehabilitate injured bodies.

And they come away convinced that "Nautilus is the state-of-the-art equipment," one fitness center manager says.

There are an estimated 10,000 public fitness centers around the country, and 90 percent of them use Nautilus equipment, though not necessarily exclusively. Jones sells equipment to centers and the right to name themselves Nautilus centers, if they so choose. He exercises no control over those that do.

Sales of Nautilus machines to the public fitness centers represent only a small percentage of Jones' business. Nautilus machines are used by corporate recreation centers, medical facilities, law enforcement agencies, the armed forces, professional sports teams, colleges and high schools, and hotels.

Jones explains that the principle behind his equipment is quite simple:

"A Nautilus machine is nothing more or less than an improved barbell, a logical barbell, a rational barbell."

"The only real difference is that a Nautilus machine provides your muscles with the required overload throughout a much greater range of movement. The machine's variation in resistance is based on actual requirements of the muscles, rather than being arbitrarily dictated by the random resistance provided by a barbell."

Simple enough, but to work out ratios and sizes of needed cams and pulleys calls for advanced physics equations. Designing such a machine requires a mathematical bent.

Jones has that bent. To him, it is a genetic predisposition. It certainly was not learned in the classroom; he is a ninth-grade dropout.

And he did not come by his knowledge of physics and human anatomy from "experts."

"If I listened to the advice of experts, I would not have gone into this business," he says. "They said I could not sell painted machines, that they had to be chrome [he sells both]; they said I did not have the capability to make my machines; they said only multiple machines, not a single station machine, would sell."

"As always, the experts are wrong. If they even think they are right, I am suspicious. People have opinions and beliefs, they don't think."

Considering that Jones does not "think," he certainly has come up with an impressive array of expansion plans for Nautilus.

On his drawing board is a computerized Nautilus machine. No more counting the number and pounds of weights being lifted—a computer, built into the machine, will flash a readout of the stress a user's muscle is undergoing.

Jones believes, too, that his machines can help people afflicted with osteoporosis. Last year he provided \$3 million for a 10-year University of Florida study on the effects of exercise in preventing or halting the degenerative bone disease.

Meanwhile, at Lake Helen, Jones has built a \$72 million television studio. It will be the broadcast center for the Nautilus Television Network, beaming via satellite a variety of sports-related shows on athlete recruiting, strength building, rehabilitation, skill training,

PHOTO: TERRY DRYMOND



Jones watches as dinner is served to a fellow resident of Jumbolair.

agility and stretching programs, even fund raising.

Further flexing his business muscles, Jones plans to create a home market for Nautilus machines. He is organizing a new corporation, selling stock to the public. He envisions a Nautilus exercise machine in every family recreation room, the family tuned in to the Nautilus Television Network.

Jones, one soon realizes, makes full use of every tissue of his 5-foot-8-inch, ectomorphic 165-pound body—which he nourishes with steady cigarette smoking and consumption of quarts of coffee daily. He keeps his body on its feet 18 hours a day, often not taking to bed until long after midnight and breakfasting in midmorning at, of all places, a Howard Johnson's down the road.

Not exactly a picture-perfect spokesman for the adage that to become healthy, wealthy and wise, it is necessary to follow a regimen of "early to bed and early to rise."

But then, to borrow from Arthur Jones: "As always, the experts are wrong."

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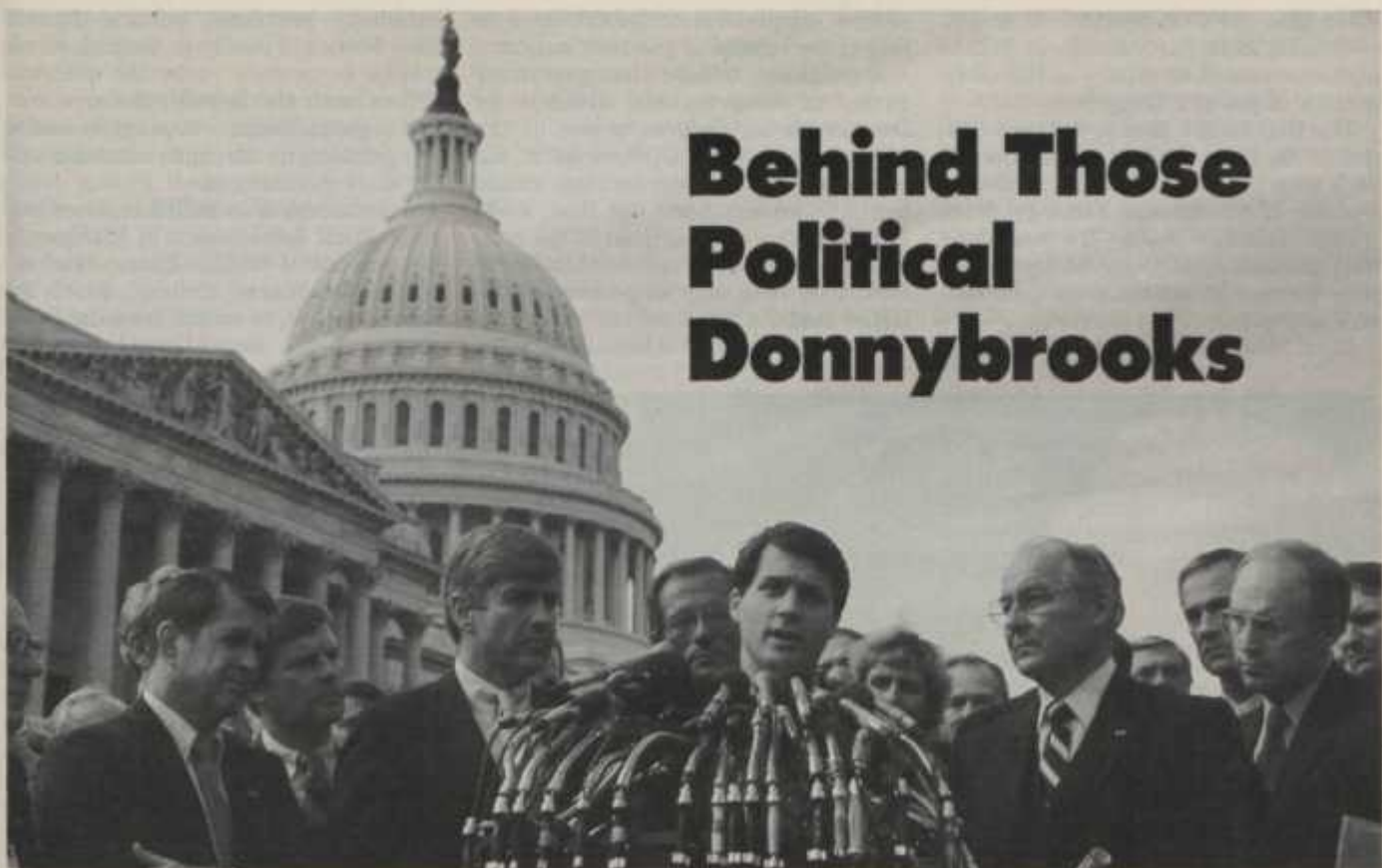


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Behind Those Political Donnybrooks



Evidence of rising interparty bitterness: The whole GOP House delegation rallied around Richard McIntyre (center) when Democrats refused to seat him after a close election.

WASHINGTON political strategists generally like to think big. Nine months ago, for example, they were focusing on such major concerns as whether President Reagan would carry all 50 states and whether the Republicans would retain control of the Senate.

In recent months, however, Washington has been deeply interested in the outcome of a disputed congressional election in Indiana, a special election for a state Senate seat in Michigan and the decision of a county executive in the latter state to change his political affiliation.

Why do such seemingly parochial political concerns hold intense interest for the nation's top elected officials and political strategists?

Because those developments, actually or symbolically, are on the cutting edge of the next major chapter in American political history.

Each situation and its repercussions help explain what is happening in this transition period, which began the day after the 1984 elections.

Those elections marked a watershed for both parties. President Reagan won a massive vote of confidence for policies that are changing American government in fundamental ways—but he is barred by the Constitution from running again, even if he were so inclined.

While Republicans held control of the Senate in 1984, voters returned a Democratic majority to the House—meaning

that Rep. Thomas P. "Tip" O'Neill of Massachusetts would again hold the dominant post of Speaker. O'Neill is widely considered the last major link in the top echelons of government with old-line Democratic liberalism, going back to the New Deal. But he plans to retire from public life after his current term.

Thus, much of Washington's political thinking is now focused on attempts to determine the outlines of the American government and politics in the post-Reagan, post-O'Neill era.

Business has an important stake in how that era develops in both a governmental and a political context. Business people generally have been strong supporters of Reagan policies based on budget restraint, tax cuts and easing of government regulation of the market place. They have tended to oppose what they perceive as the O'Neill philosophy of a strong central government embarking on ever more costly and unsuccessful social programs.

THE KEY CHALLENGE to Republicans at this point, in the jargon of the political scientist, is to institutionalize the Reagan program by electing enough committed candidates who will assure its continuation after its creator's departure. The challenge facing Democrats is not so clear-cut.

Any Democratic strategy to regain the White House and the Senate must

offer voters an alternative to the Reagan record but cannot, as a matter of political pragmatism, suggest that restored Democratic supremacy would mean the overthrow of policies that won the support of 49 states for the President in 1984.

The current political maneuvering between and within the two major parties is taking place against the background of those two fundamental challenges.

Crucial to the institutionalization of the Reagan philosophy is GOP control of the House of Representatives. Without it, proposals of this President or his successor, if that successor is a Republican, will generally be an adulterated version of what he has recommended, a compromise between the GOP-controlled Senate and Democratic-controlled House.

With control of the House, Republicans believe they could become the nation's majority party well into the next century, given present trends.

Democratic strategists believe they must move quickly and forcefully if they are to begin making a recovery from the staggering political defeats they have suffered: loss of four of the last five presidential elections, loss in 1980 of control of both houses of Congress for the first time since 1952, and failure to regain the Senate in 1982 or 1984.

Because of the stakes involved—political control of the American govern-

ment into the 21st century—it is not surprising that partisanship in Washington escalated so rapidly in the early months of the new Congress.

The Republican plan to capture control of the House is being implemented both within and outside that chamber.

Much of the internal strategy deals with a "fairness" issue—the insistence that the Democrats' control stems not from public support but from questionable activities.

Last November's election in Indi-

redrew congressional district lines to reflect the results of the 1990 census.

Republicans believe that gerrymandering of congressional districts by Democratic legislatures is one of the major reasons why GOP ranks in the House are not as large as they should be. GOP leaders point out that, while Republicans won 49 percent of the total vote cast for U.S. representatives in 1984, they hold only 42 percent of the House seats.

That disadvantage is intensified, they

nationally prominent political figures like former President Gerald Ford, whose hometown is in the district. Ehlers won, and Republicans now control the state Senate—a counterforce to the Democratic strength elsewhere in the state government.

Republicans also hailed another major political development in Michigan—the decision of William Lucas, chief executive of Wayne County, which includes Detroit, to switch from the Democratic to the Republican Party. His announcement of the change came just as Fahrenkopf and GOP leaders were launching "Operation Open Door," an appeal to Democrats no longer comfortable in their own party to come over to the GOP.

Because Republicans are attempting to broaden the base, as well as the numbers, of their ranks, the fact that Lucas is black made his switch more significant. An invitation to the White House to meet with President Reagan was among activities surrounding Lucas' entry into the GOP.

Party strategists see signs of other successes at the state level. The GOP took control of four legislative chambers and gained 325 legislative seats in 1982. It still has a long way to go, however. Democrats have a 66-32

edge in the number of chambers controlled. (The 49 bicameral state legislatures have a total of 98 chambers. Control of one chamber can be critical in reapportionment battles because of the veto power it can exercise. Nebraska has a nonpartisan, unicameral legislature.) Fahrenkopf says, "We have three election cycles to gain control of a majority of chambers. We will do it."

ANOTHER MAJOR success of the "Open Door" approach was the move of former Democratic Rep. Kent Hance of Texas into the ranks of the Republican Party. Hance lost a fight for the Democratic nomination for U.S. senator last year and sat on the political sidelines as the seat was won by another ex-Democrat, Phil Gramm. Hance announced he would rather switch parties than put up with policies that go against his conservative political philosophy.

Other aspects of the "Open Door" operation are aimed at the grass roots, with the sun belt considered a particular target of opportunity. California Republicans, for example, are geared up



A successor to House Speaker "Tip" O'Neill? Lead contenders are Majority Leader Jim Wright of Texas (center) and Rep. Dan Rostenkowski of Illinois.

ana's eighth congressional district provided Republicans with a highly visible forum for arguing their point. The Indiana secretary of state certified Republican Richard D. McIntyre the winner by 418 votes, out of nearly 229,000 cast. House Democrats, alleging irregularities, refused to seat McIntyre, conducted their own recount and declared Democrat Frank McCloskey the winner by four votes. Republicans not only protested bitterly over what more than one termed a stolen election, they walked out of the House chamber in a body as a demonstration of their united opposition to the majority's handling of the dispute.

The incident served to dramatize Republicans' claim of unfairness and dictatorial tactics on the part of the Democratic majority. They are continuing to cite it in calling for election of a GOP majority in the next congressional races, 16 months from now.

One of the most significant of the Republicans' tactics to gain control of the House is to seek control of as many state legislatures as possible by 1990. State legislators elected that year will

argue, by the Democratic majority's decision to limit Republicans to 39 percent of the seats on committees, where much of the actual work of the House is done.

Frank J. Fahrenkopf, Republican national chairman, declares: "Our goal is to gain control of a majority of state legislatures and/or a majority of governorships to either control or protect the reapportionment process."

That goal explains why a special election in Michigan's 32nd Senate district took on such political significance this spring. Democrats hold the governor's mansion and the state House of Representatives. With the vacancy, the Senate was split politically. For Republicans, therefore, the one Senate seat at stake was an early opportunity for the party to retain a power center in the state government in preparation for 1990.

The race between Republican Vern Ehlers and Democrat Steve Mosma took on many overtones of a major national contest—lavish campaign treasuries, campaign consultants, media advisers, pollsters and the involvement of

to register 10,000 voters now registered as Democrats in 18 of the state's 80 assembly districts.

Where do the Democrats stand as Republicans go more aggressively onto the offensive and claim a string of gains toward their goals? Rep. Tony Coelho of California, chairman of the Democratic Congressional Campaign Committee, says, "House Republicans are frustrated, not because they lost the disputed Indiana seat. Their frustration is much more fundamental: They are and will remain in the minority, even after the 1991 apportionment."

He says he is not alarmed by the GOP's party-switching drive: "Every time they've tried it, they've bombed." And he adds, "We're going to be out there just as aggressively for their people as they are for ours."

As to the escalating and increasingly bitter partisanship in the House, Coelho states, "House Democrats have no choice but to be partisan at times to counter White House and Senate Republican hardball throwers, not to mention their party apparatus."

While the two parties mount strong, pre-1986 attacks on each other, both face internal problems that could sap their respective campaigns.

For the Republicans, it is a case of the established leadership pursuing what it considers the most effective policies for a minority seeking to become a majority, while a "Young Turk" minority within the minority demands more aggressive action. The Young Turks feel that the minority leadership has too close a relationship with the Democratic chieftains and should be fighting them at every turn, not trying to work cooperatively with them.

Rep. Newt Gingrich (R-Ga.), the most highly visible and most outspoken member of the Young Turk faction, says many senior Republicans "have been bought off. They are simply fine-tuning the Democrats' agenda."

A veteran political scientist, Norman Ornstein of the American Enterprise Institute, says the issue dates from 1982, when Republicans retained control of the Senate for the second successive election for the first time in a half century. In that same year, House Republicans lost 25 seats. Ornstein

says: "The election rekindled a debate among House Republicans. Some said, 'Look, we are a perpetual minority, and we should do what we can to get what we can.' Others said, 'The only way we can be the majority is to adopt guerrilla tactics and make Democrats look foolish.'"

THERE ARE Republicans, however, who neither are resigned to permanent minority status nor are part of the guerrilla activities of the Young Turks.

Rep. Chalmers P. Wylie (R-Ohio), senior Republican on the House Banking Committee, says, "I'm not one who necessarily believes that you have to go along to get along—but it is desirable to work with the majority to get legislation passed." At the same time, he has not given up hope that the GOP will some day take control of the House, which would make Wylie chairman of the Banking Committee. The Northern states that have been Democratic strongholds, he says, "are the ones that are losing population."

While the Republicans are split over tactics and strategy, the majority Democrats also have their divisions. A long-standing one is between the conservative wing and the traditional liberal

faction of the party. Some see the shift of Hance and other conservative Democrats to the Republican Party as an early indicator of a realignment of the two major parties along conservative and liberal lines. Although there has been talk of a political realignment on that basis for a half century, many political analysts see it as a more realistic prospect now because of the increasing success of Republican candidates in the South, where a political career once was possible only through the Democratic Party.

Another source of contention within the Democratic Party in the House deals with the election in 1987 of a successor to Speaker O'Neill. Majority Leader Jim Wright of Texas claims to have sufficient support for the position as of now, but Rep. Dan Rostenkowski of Illinois, chairman of the Ways and Means Committee, is seen as a potential challenger to Wright.

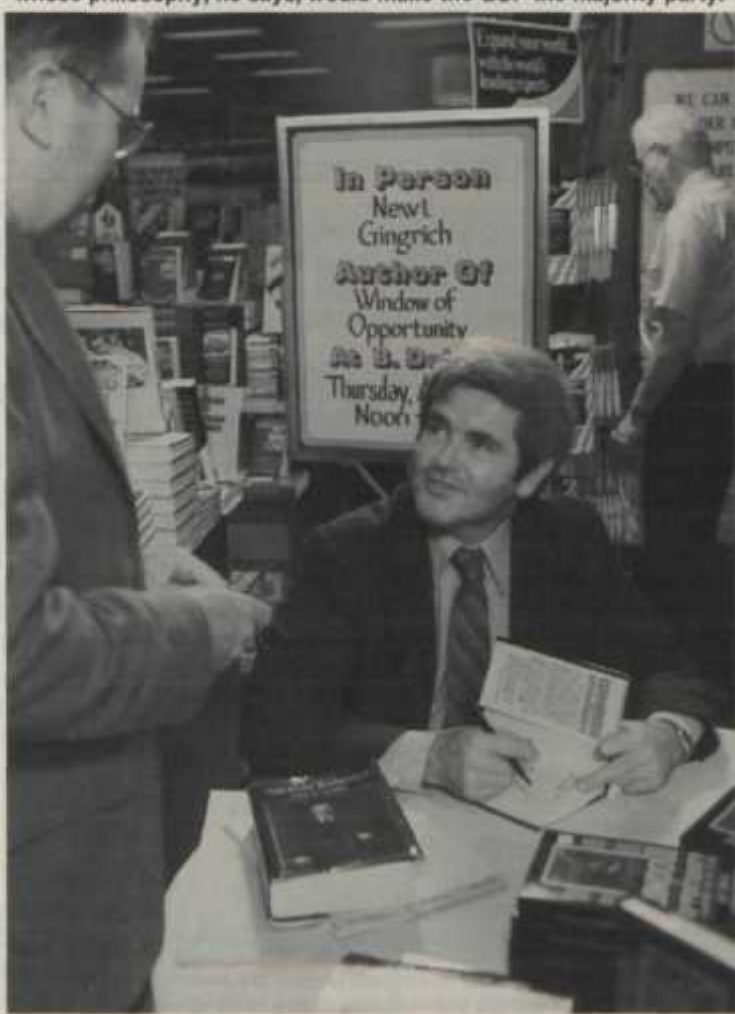
Rostenkowski, a major power in government as head of the committee in which all tax legislation must originate, is gaining a high degree of public attention as a key figure in congressional action on President Reagan's tax reform proposals. As chief Democratic spokesman on tax reform, he is in a position to exert leadership on a critical issue, and that could strengthen his hand against Wright in a contest for the Speaker's post.

There is also the very real possibility of a direct clash between Wright and Rostenkowski over a key section of the Reagan tax plan. The section deals with the level of taxation of the oil industry, which is represented among Wright's constituents.

Some House members believe Rostenkowski will seek to toughen the oil provisions of the tax law and thereby put Wright in a position of defending the industry, which does not count a large number of friends among liberal Democrats. According to current speculation, those liberals would shift to the Ways and Means chairman in the contest for Speaker.

That situation is only one of the many strong political undercurrents demonstrating that, if the nation is indeed en route to a new political era, it will not come about without old-fashioned political infighting. **EN**

Rep. Newt Gingrich is plugging his book, *Window of Opportunity*, whose philosophy, he says, would make the GOP the majority party.





The Eyes Have It

By Carol Dilks

MOST PEOPLE do it for appearance's sake. But when Julian Smetana, production manager for Mars Electronics in Folcroft, Pa., switched to contact lenses, it was to end the constant hassle of putting on and taking off his reading glasses. He decided to use two of the most recent advances in lenses: extended wear and a technique called monovision.

He had never worn contacts before, but he found he had no trouble at all adapting to wearing the single Saran-Wrap-like lens that was fitted to his left eye, the one that would be his reading eye. His naturally dominant right eye was left unaided for distance vision. To his surprise, his brain quickly got accustomed to this visual inequity and figured out when to pay attention to which eye.

The monovision approach, which often involves two different prescriptions rather than Smetana's one, has been a boon to those who have grappled with bifocals. Instead of correcting the eyes so that the focus of both is resolved at a single point, one eye is corrected to be usable for close vision and the other to be usable for distances. The individual basically uses only one eye at a time. Monovision has had a 70 percent to 80 percent success rate—way beyond that of other bifocal contact lenses.

Contact lenses have come a long way since their introduction in the 1930s. There is now a variety of types, with different compositions, consistencies, capabilities and price tags.

• **Hard lenses** (\$49 to \$125) made of polymethyl methacrylate (PMMA) have excellent optical qualities and can correct acute vision problems. However, they allow for no exchange of oxygen from air to eye. Since the cornea—the clear, dome-shaped structure covering the colored section of the eye—has no blood vessels, it depends on contact with air to obtain oxygen. The decrease in access to air

and the feeling of a foreign object (that is, the hard lens itself) in the eye create discomfort. People work hard to desensitize their eyes, following strict schedules of an increasing number of hours per day to build up to an eight-hour maximum.

• **Conventional soft lenses** (\$69-\$150) need almost no getting used to and can be worn just on weekends or special occasions if one wishes. Made of various spongy types of plastic, they absorb water to make up 30 to 80 percent of their total volume. Though the water makes them more comfortable, it also means that soft lenses soak up proteins, fats, mucus and bacteria, as well as smoke and sprays. They need meticulous daily cleaning and disinfecting to keep them safe and clear. Due to their gel-like texture and all the handling that goes into maintaining them, they generally are damaged and need replacement within two years.

• **Gas-permeable lenses** (\$139-\$200) are made of plastic and/or silicon, and provide visual correction equal to that of hard lenses. They have a much shorter break-in period, however, and may be worn for up to 16 hours. They are also relatively easy to handle. Since they allow 80 percent of normal air flow to the eyes, there is less chance of the kind of "overwear" problems people often have with hard lenses: corneal

swelling and temporary distortion of vision called "spectacle blur." The gas-permeable lens is durable, lasting almost as long as hard lenses.

• **Extended wear lenses** (\$225) are the newest type and one of the hottest items to hit the American market since horseless buggies. The attraction is evident: Since they are worn for about two weeks at a stretch, you can see well all the time—it is like having naturally good vision. Made of the same plastic as soft lenses, they have been adapted to allow for a 75 percent air exchange. They are immediately comfortable because they are extremely thin and soft, but this also makes them hard to handle and easy to damage. They must be cleaned and disinfected when removed. Because the lenses allow the eyes no time off, the eyes' health must be carefully monitored by a professional.

Not all eyeglass wearers are good candidates for contacts. First, you must be strongly motivated to succeed. With hard lenses, there must be a strong commitment to following the wearing schedule and tolerating the initial discomfort. For soft lenses, the commitment is to proper daily lens care. Ophthalmologist Zoraida Fiol-Silva, director of the Contact Lens Service of Wills Eye Hospital in Philadelphia, cites poor lens care as the major cause of conjunctivitis in soft lens wearers. This

inflammation makes wearing lenses temporarily impossible—and unsafe.

Within the next year or two we will likely see contacts that can change dark eyes to light, as well as tinted extended wear lenses (the only type not currently tintable). We will also see gas-permeable extended wear lenses, and, the ultimate move in this industry as in many others: disposable lenses. Imagine picking up a six-pack of your extended wear prescription and taking a devil-may-care attitude about the lenses. If you damage one, you can just chuck it out and reach for a fresh one.

No deposit, no return. **NO**



Recent improvements in contact lenses are making their use an increasingly popular alternative to eyeglasses.

CAROL DILKS is a Philadelphia free-lance writer.

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Energy: A Promise Renewed

Many alternatives to fossil fuels
no longer seem so exotic or expensive.

By Harry Bacas

FORTY MILES EAST of San Francisco, following Interstate 580 up and over the grassy slopes of Altamont Pass, the unsuspecting motorist comes upon a sight that would make Don Quixote rub his eyes.

Hundreds of giant windmills, ahead and to the left and right, some like eggbeaters, some with pale arms that reach more than 200 feet in the air, turn endlessly above the grazing cows. They are generating electricity for homes and businesses in the San Joaquin and other California valleys.

The fantastic wind machines represent one of the alternative energy technologies being exploited to augment—and perhaps some day replace—the world's dwindling supply of conventional sources.

Energy experts anticipate that oil, gas, coal and nuclear will be the primary sources of power far into the next century, but research on alternatives continues.

Some alternatives, like wind and geothermal power, are well developed although confined to only a few geographical areas. Some, like photovoltaics, have a wider application

and are considered on the verge of a general breakthrough.

One utility company, Southern California Edison, a leader in exploring alternative sources, expects to produce one third of all its new power in the next five years from wind, geothermal, solar, biomass—principally wood—and hydroelectric sources.

Throughout the country an increasing amount of electricity is being generated as a byproduct of other industrial activities. Much of this "cogenerated" power, which Congress in 1978 ordered utilities to buy from its producers, still uses conventional fuels. But one kind of cogeneration—the fastest growing—uses municipal waste to produce electricity.

It is predicted that 100 such plants will be built in the next decade, at a cost of \$15 billion and generating revenues of \$4 billion.

"This business is really taking off," says David Sokol, president of Ogden-Martin Corporation, one of the largest trash-to-electricity companies.

Ogden finances, builds and operates plants that burn trash and garbage so completely that they produce no dioxins

or other air pollutants, create no odors in their neighborhoods, leave a 5 percent residue of ash that is used in road building, and generate industrial grade steam and electricity.

Temperatures of 2,800 degrees destroy harmful dioxins, which poisoned the emissions of earlier incinerators.

Sokol says there is an "overwhelming need" for such plants because city landfills are overflowing and new sites are becoming more expensive.

But even if all 300 million tons of refuse Americans produce each year were converted into electricity, that power would meet less than 5 percent of the nation's needs.

Experts agree that it will take a combination of several technologies to replace the energy now supplied by fossil fuels. Those technologies show varying degrees of progress:

Biomass energy is the oldest and largest alternative technology. It is the conversion of organic material—mostly wood, but also organic material in municipal waste—into heat through burning or the conversion of various crops into gas or liquid fuel. It has nearly doubled in use since 1975 and now sup-

"Eggbeater" wind turbines at Altamont Pass, Calif., are among 4,000 wind machines there, generating enough power for 100,000 homes.

plies more than 5 percent of the nation's energy.

An example of industrial use is Procter & Gamble's \$30 million conversion of a plant in Staten Island, N.Y., two years ago, from oil to wood fuel. Another is Burlington (Vt.) Electric Company's completion last year of a \$76 million, 62-megawatt wood-fired electric power plant.

Wood also plays a key role in one of the emerging technologies for improved burning of coal, since a little wood, mixed with coal, absorbs 90 percent of coal's sulfur emissions.

Burning municipal waste is the fastest growing use of biomass energy. A third use is production of alcohol fuels from a variety of crops to blend with gasoline as gasohol.

Hydropower is the second largest renewable energy source. Water has been used for centuries to run mills and more recently to produce electricity. Until this year, when it was passed by nuclear power, hydro was second only to coal as a source of electricity. Its growth now is slow because the big rivers have been dammed and future increases will have to come from small projects, most of which face opposition from environmentalists.

Hydro technology is well developed and requires little maintenance. But smaller projects have a higher unit cost because they must be custom-designed to fit the site. Modest but steady growth in small projects is expected.

Wind power has been the fastest growing of all renewable energy sources. The heaviest development has been in California, where more than 8,000 wind turbines, erected in the last three years in windy mountain passes, generate 600 megawatts of electricity, enough to serve 200,000 homes.

Turbines are mostly clustered in "wind farms," and research has aimed at larger and larger machines because with size comes efficiency. But the largest machines have proved vulnerable to damage, and they need frequent repair. Some 20 U.S. companies manufacture large turbines, and 25 companies make smaller wind machines for individual use at locations where utility service is not available.

Although federal tax credits are due to expire at the end of this year, some projections show the industry continuing to grow by as much as 1,000 megawatts a year.

Geothermal energy is derived from the heat inside the earth, which is accessible at some places as steam or geysers. Most of the sites in this country are in the West. Geothermal use has been expanding at more than 10 per-

cent a year, some of it for heating but most for production of electricity.

The largest project is at the Geysers, 90 miles north of San Francisco, where Pacific Gas & Electric Company produces 1,200 megawatts of power, about 10 percent of the utility's total and 6 percent of Northern California's needs.

The Energy Department estimates that by the end of the century U.S. geothermal electric capacity will reach 2,500 to 6,000 megawatts.

Solar thermal energy includes the use of sunlight to heat and cool buildings, heat water and produce electricity. Solar heating of buildings includes simple designs with glass areas facing south and more elaborate systems of solar collectors plus pumps and fans.

The Energy Department estimates that solar heating and cooling will contribute 0.5 percent of the nation's energy by 2000.

Solar hot water heating, already in use in 800,000 residential and industrial systems, typically uses roof-mounted collector plates and mechanical pumps. The Energy Department projects this source will contribute 0.25 percent of our energy by the century's end, 10 times the present amount.

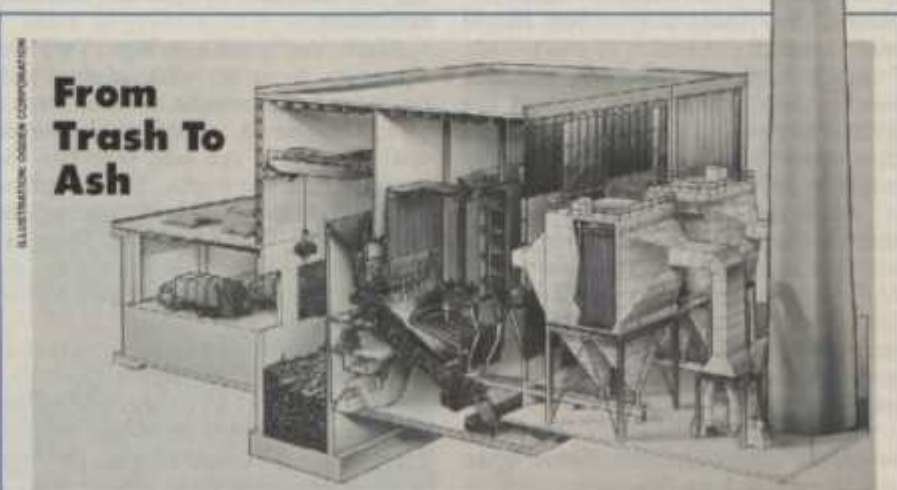
Solar thermal electric power uses curved collector troughs or arrays of reflectors to concentrate the sun's heat and produce the high temperatures needed to generate electricity by steam turbines or hot-air Stirling engines. The

largest solar thermal project operating is Southern California Edison's 14-megawatt plant at Daggett, Calif.

Photovoltaics is a different form of solar power. It is based on a technology, developed for space flight, in which sunlight is converted directly into electricity, without any moving parts. A solar cell of thin semiconductor material, usually silicon, when exposed to sunlight yields an electric current. The U.S. industry produced 15 megawatts in photovoltaic systems last year, with sales of about \$200 million. Although the technology is still too expensive for widespread use, costs have dropped to one fifth of their former level and efficiency has increased fourfold in a decade. Reliability is already high. Solar cells have a 30-year life.

Photovoltaics are now cost-effective for applications in remote areas that lack access to utility power, but new materials and manufacturing techniques must cut costs further before solar cells can compete with conventional electric utility costs.

Even so, the utility industry considers photovoltaics the likeliest alternative technology to have an early impact on its operations. The Edison Electric Institute, an association of utilities, says: "It is expected that by the early 1990s photovoltaics will be competitive with grid-supplied electricity in some regions." 86



This cutaway drawing shows a modern trash-into-energy plant at Harrisburg, Pa. It uses the Martin process, one of the two leading technologies, both developed in Germany. Trucks dump refuse into the pit at left. An overhead crane picks it up in chunks and drops it into the hopper, where it travels to the inclined grate. The burning mass is continuously agitated and subjected to

blasts of air from underneath. Air jets above promote further combustion in the exhaust gases. The heat produces superheated steam in boiler chambers above the grate. Then electrostatic scrubbers clean and deodorize the gas before it is released through the chimney. Residual ash is discharged onto the track under the grate. The steam drives electric generating turbines.

Their Woolgathering Is No Daydream

Headquartered on the Kansas farm where they both grew up, anthropologist Annie Hurlbut and her mother, Bidy Hurlbut, sell imported sweaters, made of one of the world's most luxurious fibers, to upscale Americans across the country.

For Annie, starting a business was her ticket to Peru. She had developed a passion for that country when, as a Yale sophomore, she volunteered for an archeological dig on the Peruvian coast. She found a way to return as a University of Illinois graduate student in 1976 when she won a fellowship from Princeton to conduct doctoral research on Peru's "market women"—women who sell goods in marketplaces of remote Andean villages.

Hurlbut returned to the 1,000-acre farm near Tonganoxie, west of Kansas City, for the Christmas holidays that year, bringing with her a special gift for her mother's 50th birthday: a sweater made of the soft and silky lightweight wool of the alpaca, a llama-like animal native to the Andes. Alpaca, as the wool is known, is said to have been the royal fiber of the Incas.

"All of my mother's friends were crazy about the sweater," Annie recalls. "They said, 'Maybe you should start importing these.'"

Annie returned to Peru to continue her research, but her mother took the gift sweater to Hall's, the Kansas City, Mo., department store, and came away with the first order—for 20 sweaters.

"Right from the beginning, it was a mother-daughter business," says Annie. She and Bidy are 50-50 partners in the Peruvian Connection, Ltd. Her father, Gordon Hurlbut, who raises cattle and grain, is not involved in the business, but he "has to put up with it," says Annie, 33.

At first, Annie and Bidy thought it would be a wholesale business. When Annie returned to Illinois to work on her thesis and teach, she moonlighted, visiting boutiques around the country to sell the alpaca fashions. But she disliked doing the wholesaling and, except for a fortuitous newspaper article, the Peruvian Connection might not exist.

Annie had taken space at a New York fashion trade show, where she was interviewed by a *New York Times* reporter. The subsequent article, syndicated nationally, brought in 3,000 queries, not from stores but from individuals. "Sud-

denly, we found ourselves with a customer list," says Annie.

She and Bidy moved out of wholesaling and into direct mail sales. With a \$50,000 Small Business Administration-guaranteed loan, they put out a color catalog in 1980.

Annie will not disclose sales figures except to say, "Several hundred thousand dollars a year." The Peruvian Connection now sends out nearly half a million catalogs a year. The catalogs, which often include an irresistible swatch of alpaca, show sweaters for both men and women (\$79 to around \$170) as well as hats, ponchos, scarves, capes and skirts.

Always the farm's bookkeeper, Bidy has taken over the administrative nuts and bolts of the business, managing the books, overseeing the computer system and handling fulfillment.

Annie works with a New York designer to come up with original patterns for the garments. Several times a year, she travels to Peru to determine which suppliers can best translate the designs into garments. The suppliers are cottage industries, overseeing the women who do the knitting. They are similar to the women Annie studied, except that they live in urban rather than remote areas.

Annie describes the target market as "educated and somewhat affluent, although they don't have to be rich. They like unusual things. They are not just going after a designer label; they are after a personal style rather than a fashion."

The demands of the Peruvian Connection forced Annie to postpone working on her doctorate. But through her company, she has been able to employ her knowledge of anthropology as well as underwrite more than 30 business trips to her beloved Peru. "It's just a rugged, fascinating, primitive, modern, unusual country," she says. "Its physical beauty is beyond belief."

She thinks the secret to business suc-

PHOTO: STEVE HUI



The soft wool of Peru's alpaca is the heart of a business run by Annie Hurlbut, who wears a company design.

cess is quite clear. "You have to invest everything that you have—emotionally, physically, financially and intellectually. To be able to do that and feel rewarded for it, you'd better pick something that you really love."

—Sharon Nelton

Putt-Putting Down The Road to Riches

Peter Burns is what is called a quick study.

After only one year in college, he dropped out and launched a business that was almost instantly successful.

Burns' ride to riches involves a vehicle legal on U.S. roadways only since 1977: the moped.

As a 19-year-old University of Virginia freshman, Burns enrolled in a course in entrepreneurship. His assignment: build a business on paper.

Remembering having rented a moped to get around on a Bermuda vacation, he built a classroom business of renting mopeds at U.S. island vacation spas.

The professor was impressed. So much so, in fact, that he urged Burns to try the business during the upcoming

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summer break. That was in May, 1977. In August Burns phoned the professor from Nantucket Island in Massachusetts to say he would not be returning to school. In four short months he had grossed \$50,000 renting mopeds to tourists.

"I wasn't thinking about school any more," says Burns.

On Nantucket, a site Burns had chosen because his family often vacationed there, the young entrepreneur had rented a small, dirt corner lot, bought a card table and a cash box, and invested \$5,000 in buying 15 mopeds.

"The first two weeks were so busy that I called my father to borrow \$10,000 so I could buy 25 more mopeds," Burns says. The mopeds—top speed, 25—get 100 miles per gallon. Tourists loved them.

When Nantucket's season ended, Burns loaded the mopeds into a truck and headed for Florida.

Sanibel Island, off Fort Myers, proved so profitable he made it headquarters for his Fun Rentals company. From there 40 employees run 11 other sites, all in swanky resort areas such as Boothbay Harbor in Maine, St. Simons and Jekyll islands in Georgia, seashore towns in New Jersey and Captiva and Marco islands in Florida.

"I select only places that have plenty of scenery, slow traffic, a lengthy tourist season with an affluent clientele and a downtown area that forms a nucleus of a town," Burns explains.

Like many entrepreneurs today, he has jumped into franchising. He sold his first franchise last year, at Florida's Clearwater Beach.

For \$35,000, the franchisee is provided nearly everything but the rolling

stock. Burns buys the Puchs mopeds, leasing them to the franchisee or selling them to him at less than \$200 each, half the retail price.

Fun Rentals now has 500 mopeds on the road. Rentals are \$8 an hour (weekly rate: \$100). Most of the sites also have added bicycles and golf carts for rent.

To increase profit still further, Burns now sells vacation supplies such as suntan lotion, sunglasses and beach towels at Fun Rentals outlets.

"These tourist items have increased my daily average sales and rentals on Sanibel Island, for example, to \$1,900," he says, explaining that his break-even point is \$450 daily.

"You can see that the profit margin in this business is enormous. And it is an all-cash business.

"I have made a lot of money in the last eight years. In addition, I have bought quite a few parcels of land in these resort areas where I have shops. So now my goal is to have 100 franchises and 100 pieces of the most valuable property in the country's resort areas."

Burns' Fun Rentals is grossing more than \$1 million a year.

Then there are those real estate holdings. On Sanibel Island, one of Florida's most expensive resort areas, Burns has bought three acres surrounding his Fun Rental site. And earlier this year he negotiated a \$1 million purchase of land and buildings on Nantucket.

For a 28-year-old, it is an auspicious start on a business career—and all the more so because, when it comes to mopeds, Burns admits that "I couldn't fix one if I had to."

—Del Marth

PHOTO: THOMAS PRICE



Peter Burns dropped out of college and became an entrepreneur at 19. He isn't sorry.

The "Bug" Bites, And BidNet Is Born

Two years ago three young professionals were itching to start their own business. "We had the entrepreneurship bug," Richard L. Cohen says. "We were just looking for the right idea."

The result: BidNet, sort of a match-making service for business. It alerts companies electronically to what is being bought by government and non-profit purchasers across the country, bringing together in one computerized data base the purchasing needs of the federal government, states, counties, cities, and many other entities.

BidNet, based in Rockville, Md., collects public bid documents, summarizes key information and sends bulletins to subscribers via electronic means, including telex and the computer.

All three—Andrew Lupton, Cohen and Mary Brady—had worked for the government, at either the state or federal level.

Familiar with the *Commerce Business Daily*, a U.S. Commerce Department publication that lists most federal government contract opportunities, Lupton wondered if anything comparable covered state and local government contracts.

"We began to investigate," Cohen recalls. "There was nothing."

The group also discovered that it would be nearly impossible to provide the service in print form because state and local contracts are often open for bid for extremely short periods—sometimes only 10 to 15 days, compared with at least 30 for the federal government.

"That meant that by the time we could get the information out to clients, the bidding would be closed," Cohen explains. "Our transmissions had to be electronic."

Several months were spent researching the idea, as all three continued working at Washington jobs. Soon discussions involved Gregory O. Lipscomb, a former California state government official and a friend of Cohen's.

A business plan was prepared, and funding was sought. "Almost everyone we talked to, their eyes lit up," says Cohen. "Few were uninterested."

Finally, agreement was reached with Best Products Company, a Richmond-based catalog showroom chain. In December, 1983, BidNet became part of Best, whose executive vice president and chief financial officer was Joel D. Koblentz, now BidNet's president.

Last November Koblentz, Lipscomb and the three founders agreed to buy

the company from Best. Last April Dun & Bradstreet Corporation bought a half interest.

BidNet's growth has been phenomenal.

"We started with 11 jurisdictions putting information into the system, sharing bid documents with us," Cohen says. "Today we have some 550."

Cohen says the firm often sends more than 1,000 bulletins a day to its 500-plus clients across the country.

"BidNet is one of those rare business ideas that come along every so often," says Lupton. "On the one hand, we are helping public purchasers by identifying new sources of supply, expanding competition and helping purchasers get a better value for the taxpayers' dollar. At the same time, we make it possible for vendors to find out about bid opportunities quickly and cost-effectively."

BidNet charges \$1,795 a year for state, local and federal coverage. State and local coverage, or federal coverage only, costs \$1,200. Full bid packages requested are sent by courier or first class mail, depending on need.

A subscriber in St. Paul recently won a substantial contract from the city of Buffalo. "Without BidNet, the firm would never have known about the bid opportunity," says Cohen. "As a result of BidNet, the firm picked up a nice piece of business, and Buffalo found a new, cost-competitive supplier. That, in a nutshell, is what BidNet is all about."

—Bob Gatty

Information from Richard Cohen's (left) BidNet led Frank Jaret and his Lanham, Md., firm to a contract for coffee makers.



He's Gonna Make You a Star

"I guess you could say the idea had been in the back of my mind since my playing days," says Jim Bouton, probably best known as a pitcher for the New York Yankees in the 1960s and later as the author of the book *Ball Four*.

"My brother, Bob, told me I hadn't made it as a major leaguer unless I had my picture on a bubble gum card. Now we make cards for people in all walks of life—business people, kids, college students, families and a lot of others."

Bouton's company, Big League Cards, sells personalized bubble gum cards—like the kind you got as a kid, featuring your favorite ballplayer, except that these cards can have *your* picture on them. The cards even come with a stick of gum.

The cost is \$29.95 for 50 full-color cards. You just send a picture of yourself along with some basic information (favorite activities, birthdate, nickname) to Big League Cards in Teaneck, N.J., and you get back your own little piece of stardom. People are not the only stars.

"We had a breeder put his prize bulls on the cards and give them away at trade shows," says Bouton. "Trade show people use them quite a bit instead of regular business cards. They say potential customers seem to remember them a lot better."

Bouton and his brother started the company in 1983. The former pitcher invested \$50,000 of his own and took out a \$150,000 bank loan. As Big League Cards enters its third season, it is showing a profit. "With any new venture it takes a while. But we're growing," says Bouton, who now runs BLC himself.

BLC is also branching out into dealerships around the country. Says Bouton: "We give kits to hobby and novelty stores, which then advertise our product. We give a commission on any sales. But it's not just limited to stores. Housewives and college students also do some selling."

"We're also in the Advertising Specialties Distributors catalog." The catalog lists firms in the billion-dollar business of specialty items such as personalized pens and calendars. "There are more than 15,000 distributors nationwide in it. It gives us more exposure."



BIG LEAGUE CARDS
121 Cedar Lane
Teaneck, NJ 07666
(201) 882-6228

JIM BOUTON
President

Age: 38 Height: 5'10" Weight: 170 lbs. Birthdate: 5-8-50
Hometown: Teaneck, New Jersey

BIG LEAGUE CARDS

pitching for the Yankees Jim wrote *Ball Four* and then became a sportscaster. During childhood with Atlanta in 1978 Jim designed Big League Chew, shredded bubble gum. Now he puts people on their own baseball cards.

Hobbies: Public Speaking
Investing

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Jim Bouton himself appears this way on one of his Big League bubble gum cards.

Bouton has succeeded in a venture where others have failed. "A company in California had the idea for personalized bubble gum cards several years ago," he says. "They advertised on the back of Topps [then the only company that produced major league baseball bubble gum cards]. It didn't go over very well. But I just felt the time was right."

Not that he has not had some ideas that failed. He invented Big League Brain, a calculator slide rule that predicted the outcome of a pitcher/batter confrontation. "I guess the idea was ahead of its time," he says. He also struck out on the Rodney Cube, a simploton version of the Rubik's Cube. It had only three moving planes.

But he has had major league success with another venture, Big League Chew: bubble gum, shredded to look like tobacco and packed in a pouch like its counterpart. "It's based on the theory that kids like to chew tobacco without chewing tobacco," says Bouton.

He bit off a big profit with Big League Chew. It was licensed to a division of the Wrigley gum company, and it earned \$18 million in 1981, capturing 8 percent of the bubble gum market. It is still a strong seller, not only to kids but also to pro baseball players.

Bouton's entrepreneurship is motivated by more than profit.

"When I was pitching for the Yankees and saw myself on the bubble gum card, it was a great feeling," says Bouton, who pitched for New York from 1962 to 1968. "Being on the card was a symbol of recognition and achievement, and it was almost as much fun as the achievement itself. Now Big League Cards let others experience that same thrill. They give everyone a chance to be a hero."

—Jill Barnes

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About the Author . . .

Howard Raiffa has been at Harvard since 1957 and holds the Frank P. Ramsey Chair in Managerial Economics, jointly sponsored by the Graduate School of Business Administration and the Department of Economics. He is a frequent consultant to industry. As one of the outstanding pioneers of decision analysis, Dr. Raiffa has authored a number of major books on the subject.

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"Everybody Is Going Foreign"

By Ray Brady

WHILE AMERICANS were watching the Dow Jones Industrial Average set a new high on the New York Stock Exchange, other exchanges around the world were setting off some fireworks of their own. In places as far-flung as Toronto, Frankfurt and Sydney, investors were bidding up stocks to record prices.

So it is no surprise that Americans are investing growing amounts of money on foreign exchanges. For example, U.S. pension funds had \$3.3 billion invested abroad in 1980. By last year, the figure had soared to \$16.7 billion. "The noise you hear is simply everybody going foreign," says John F. Hotchkis, of Hotchkis & Wiley, a Los Angeles firm that manages pension money.

There are many reasons in addition to rising stock prices. The whole investment world is changing. The world's biggest brokerage house is not on Wall Street, but in Tokyo. Thanks to modern communications, news about even a smallish Midwestern company is known as fast in Hong Kong as in Indianapolis. High-speed communications mean prices change almost instantaneously around the globe.

For Americans, investing in foreign stocks has an added kicker. If the value of the U.S. dollar drops, as it has been doing, the value of the shares goes up. That is one big reason many professional money managers have been looking at foreign stocks.

Are foreign stocks for everyone? John Hotchkis is one professional who emphasizes that there are pitfalls aplenty in investing offshore. Others, not quite so negative, say there is money to be made abroad—but only if the investor has thoroughly studied what he is getting into. Says Martin Sass, president of Wall Street's M.D. Sass Investment Services: "It takes expertise to understand the nuances."

Nuances like these:

If you invest on the Hong Kong exchange, you should know that compa-



Buyers of Japanese stocks should be aware of the highly volatile nature of prices on the Tokyo Stock Exchange.

nies that own land are the big investment there. Property companies make up 35 percent of the weighting of the Hang Seng Index, which can be roughly compared to the U.S. Dow Jones average.

If Japan lures your dollars, you had better study the Tokyo Stock Exchange with particular care. Unlike in this country, where trading is dominated by huge financial institutions, about 60 percent of the volume in Japan is the work of individual investors. They tend to look on stock trading as they would a horse race, so prices can be highly volatile.

In fact, on April 16, when it looked like a U.S. protectionist backlash was building up against Japanese products, the Nikkei-Dow Jones Average (yes, that is its name) plunged 345 points, to 12,207—a sickening, one-day drop for an average that, a few weeks before, had soared to its highest level ever.

There are institutional investors in Japan, but they tend to buy stocks and lock them away. Result: There are fewer shares around for individual investors, and that makes for a roller-coaster in prices.

Take price-earnings ratios. They can send a chill up an American investor's spine. One high flier, a pharmaceutical company named Green Cross Corporation, soared to more than 220 times earnings before the inevitable happened and the stock got bombed.

Political considerations also enter into investing abroad. In Sweden, the

Social Democratic government's mishandling of the economy has sent stock prices plummeting. But in France, a Socialist government decided this spring that an injection of capitalism was needed, and prices on the Paris Bourse began hitting one record high after another. "This is a bull market," sighs Jean-Jacques P. Netter, a prominent French investment adviser, "and the crazy thing is, it's happening under the Socialists."

So the rewards can be there—and in some unlikely places—despite the risks.

Investors might consider buying shares in an international mutual fund. There are two dozen such funds. Some concentrate on a single nation—there are funds that invest solely in Japan, for example, and one invests only in Korea—and some concentrate on a single industry, investing worldwide in that industry.

INVESTING DIRECTLY in foreign stocks can usually be handled through many American brokerages that also deal in U.S. stocks, and there are some specialty brokerages around, as well. Foreign stocks, it should be noted, do not come under Securities and Exchange Commission scrutiny.

It is best to check a couple of other points. Ask what commission you will be paying, because it can be much higher than for a U.S. stock. Along with that, check transfer taxes on the stock: In the United Kingdom, it is 1 percent, and in Japan you pay 55 basic points.

One other way to buy foreign stocks, perhaps the easiest way: A number of them have American depository receipts. ADRs are equivalent to shares in the overseas company, but they are bought and sold on the basis of dollar prices, and they are traded on securities exchanges or over-the-counter in this country.

Is there anything else to know about foreign stocks? "Yes," says one investment adviser. "Check out a foreign stock as carefully as you would a U.S. stock, because, whether you lose money in dollars, francs or yen, it all hurts as much."

RAY BRADY is the business correspondent for CBS News.



Key figures in the President's drive to alter the tax system are his staff chief, Donald Regan, and Treasury Secretary James A. Baker III.

Focusing on Tax Reform

Business leaders favor it but disagree on details.

ASK LEADERS of a dozen different industries what they think of President Reagan's tax reform plan, and you are apt to get one unanimous and 12 conflicting answers.

The unanimity comes on the President's call for a tax system that is simple, fair and conducive to economic growth. Executives generally see his proposal for overhaul of the 72-year-old system as an opportunity for long-needed changes in those directions.

John M. Smale, president and chief executive officer of Procter & Gamble Company, says, "The chance to reform the system and sweep away the complexity and underbrush of several decades comes only once in a great while. We must not waste it."

The wide disagreement throughout the business community comes on the point of whether the specific tax proposals being advanced by the President are in fact conducive to economic growth.

Glenn White, director of taxation for Dow Chemical Company, points out that President Reagan softened some of the provisions in the initial tax plan put forth by the Treasury Department, but he says the current version is still "pretty anti-business, savings and investment."

Lewis W. Lehr, chairman and chief executive officer of 3M Corporation, says the proposed reduction of the top corporate tax rate from 46 to 33 percent is "the most positive element in the President's program. No question, it is a potent stimulant for

economic growth." But a General Electric Company statement says that "incentives for capital investment have been weakened."

Among the executives most concerned are those in capital-intensive industries, such as heavy manufacturing and chemicals, who oppose the proposed cutbacks in depreciation allowances for buildings and equipment.

On the other hand, labor-intensive companies, particularly those with narrow profit margins and high expenditures for research and development, say the lower corporate tax rates are the most important consideration.

The commercial banking, life insurance and real estate industries are worried about the loss of tax incentives that have proved helpful to sales of their products and services.

Companies that invested heavily in plant and equipment under the stimulus of the accelerated capital-cost recovery legislation passed as part of President Reagan's major tax reduction program in 1981 are worried about the "windfall" provision of his latest proposal.

Firms that invested heavily in assets over the last five years would, in the absence of other action, receive an increased tax advantage if they continued to enjoy the accelerated write-offs under a lower corporate tax rate. The administration says, however, that affected businesses would enjoy a windfall from the reduction of tax liabilities through the rate cut. The plan would recover \$57 billion of the "windfall."

Hearings on the Reagan plan have begun in the House Ways and Means Committee, but it is uncertain whether both houses of Congress can complete action and agree on a measure this year.

Congress still faces major decisions in its efforts to curb the federal deficit. With lawmakers planning to be in recess during August, there is growing doubt on Capitol Hill that there will be time in the remainder of this session for making highly controversial changes in both spending and tax policy.

Much of the tax reform debate is likely to turn on proposals to modify various parts of the Reagan plan along the lines of proposals introduced earlier.

Those include a bill sponsored by Rep. Jack Kemp (R-N.Y.) and Sen. Robert W. Kasten, Jr., (R-Wis.), and another sponsored by Sen. Bill Bradley (D-N.J.) and Rep. Richard A. Gephardt (D-Mo.).

Comparisons of the major provisions of current law, President Reagan's tax reform plan and the Kemp-Kasten and Bradley-Gephardt bills appear on the following pages.

Leaders of congressional initiatives on tax reform are, from left, Rep. Jack Kemp (R-N.Y.), Sen. Robert W. Kasten, Jr., (R-Wis.), Sen. Bill Bradley (D-N.J.) and Rep. Richard Gephardt (D-Mo.).



Comparing the Tax Reform Plans

INDIVIDUALS' INCOME TAX

Item	Current Law	Reagan	Kemp/Kasten	Bradley/Gephardt
tax brackets for married couples	14/ 11-50%	0% to \$4,000 15% to \$29,000 25% to \$70,000 35% over \$70,000	0% to \$3,540 19% to \$59,400 29% over \$59,400	0% to \$6,000 14% to \$40,000 26% to \$65,000 30% over \$65,000
personal exemption dependents' exemption exemption indexed?	\$1,040 \$1,040 yes	\$2,000 \$2,000 yes	\$2,000 \$2,000 yes	\$1,600 \$1,000 no
deduction for mortgage interest?	yes	yes (for main residences only)	yes	yes (limited to 14% irrespective of top marginal rate)
deduction for personal interest expense?	yes	limited to \$5,000 over investment income	no	limited
deduction for state and local income taxes?	yes	no	no	yes (limited to 14% irrespective of top marginal rate)
deduction for state and local property taxes?	yes	no (except on income-producing activities)	yes	no
deduction for other state and local taxes?	yes	no	yes	no
deduction for charitable contributions?	yes	yes	yes	yes (limited to 14% irrespective of top marginal rate)
exemption for employer-paid health insurance?	yes	partial (over \$25 per month per family)	yes	yes
deduction for entertainment expenses?	yes	no	yes	yes
deduction for business meals and travel expenses?	yes	meals limited to 50% above cap; new limits on travel	yes	yes
income averaging?	yes	no	no	no
maximum contribution to IRA with nonworking spouse	\$2,250	\$4,000	\$2,250	\$2,250
income from corporate dividends	\$200 exclusion	exclusion repealed	\$200 exclusion	\$200 exclusion on dividends
maximum tax on capital gains	20%	17.5%	indexed basis or 17%	30%

How would the principal tax overhaul plans now facing Congress affect you? How would they affect your company? The charts on these pages will enable you to tell at a glance.

CORPORATE INCOME TAX

Item	Current Law	Reagan	Kemp/Kasten	Bradley/Gephardt
maximum corporate tax rate	46%	33%	30%	30%
small business tax rates	15% to \$25,000 18% to \$50,000 30% to \$75,000 40% to \$100,000	15% to \$25,000 18% to \$50,000 25% to \$75,000	30%	30%
investment tax credit?	6% to 10%	repealed	repealed	repealed
deduction for corporate dividends?	no	10% deduction on dividends paid	no	no
depreciation of income-producing assets	accelerated cost recovery system (ACRS)	indexed to inflation capital cost recovery system (CCRS)	ACRS	modified asset depreciation range: ADR (pre-1981)
3-year property vehicles, computers construction equipment machinery, etc. power generation equip. structures	3 years 5 years 5 years 10 years 15 years 15-18 years	4 years 5 years 6 years 7 years 10 years 28 years	no change no change no change no change no change no change	4 to 6 years 6 to 9 years 10 years 18 years 28 years 40 years
inventory accounting: LIFO conformity required?	yes	no	yes	yes
inventory accounting: FIFO indexed?	no	yes	no	no
uniform production cost rules?	no uniform rules	uniform rules	no uniform rules	no uniform rules
income on installment sales?	deferred	generally no deferral if receivables pledged	deferred	deferred
minimum tax on corporations?	yes	retained and tightened	same as current system	repealed
tax on net capital gain of corporations	28%	28%	indexed to inflation; 20%	taxed as ordinary income
"excess depreciation" tax on assets placed in service 1/1/80-6/30/86	N/A	40% (over three years)	no	no
research and development credit (to expire 12/85)	25%	tighten definition of qualified R&D; extend 3 yrs.	repealed	repealed
foreign tax credit	limited to total foreign income tax liability	limited to tax liability on per country basis	retained	retained

The Company Plane: Happier Landing

By Gerald W. Padwe, C.P.A.

Now that Congress has resolved the auto recordkeeping mess, the company airplane is next.

In the meeting of the House-Senate conference committee that considered the final automobile bill, the Treasury Department outlined revised rules for employee use of company planes for personal purposes. Originally, Treasury had proposed taxing officers and top employees on the basis of the cost of

better: They will be taxed only on 25 percent to 50 percent of coach fares, depending on plane weight.

A still-bigger break is available if employees on personal travel merely fill empty seats on what is primarily a business flight. If half the seating is used by people on company business, then employees, spouses and dependent children on personal trips will not be taxed at all on the value of the flight.

monthly pension payable to the participant. However, the participant cannot act alone in waiving the survivor benefit—the spouse must consent.

Proposed "technical corrections" to the 1984 act were introduced in April. They would require consent of the spouse if a participant wants to borrow from the plan, using pension benefits as security for the loan.

If death occurs before repayment, the unpaid loan balance is offset against vested pension benefits. But, because pension benefits are reduced, the spouse's survivor benefit is reduced—and that is equivalent to a waiver of a portion of the survivor benefit. For that you need the spouse's consent.



PHOTO BY MICHAEL REZA

A Treasury plan would have forced you virtually to give Uncle Sam the shirt off your back for personal use of a company plane. But now Treasury has softened.

chartering an airplane for the trip or, alternatively, on the basis of up to 600 percent of average standard industry fares. For other employees, the figure would be only 125 percent of those fares.

Because of a singular lack of enthusiasm for its first proposals, Treasury has adopted a new approach.

Income imputed to personal use of the airplane will be lower in the new regulations and will be based on the plane's weight. For those whom Treasury lists in a company "control" category (officers, employees in the top 1 percent compensation level and owners of 10 percent or more of a firm's shares) and their families and guests, income will be imputed from 200 percent of first-class fares—if the plane is at least 25,000 pounds—down to 50 percent of coach fare for planes of no more than 6,000 pounds.

For other employees, the news is even

This broad outline of what is to be in regulations will certainly give rise to many questions that will have to be resolved in additional regulations or rulings.

Permission to Borrow

A participant who wants to borrow from an employer's pension plan, using pension benefits as security, may have to bring a note from home, if legislation pending before Congress is enacted.

Under the Retirement Equity Act of 1984, an employer's pension plan must provide survivor benefits for the spouse of a deceased plan participant. The participant and spouse can, however, waive the survivor benefit once the participant reaches age 35. The waiver would, in some cases, permit payment of death benefits to an alternative beneficiary (for example, a child). In other cases, a waiver would increase the

Choice on Subsidiaries

The clock is ticking away on an opportunity for corporations that bought stock in a subsidiary company after Sept. 1, 1982. A section of tax law enacted that year permits the purchasing corporation to elect to treat the stock purchase as a purchase of the subsidiary's assets.

This allows the purchaser to step up the tax cost of those assets, thus qualifying them, for example, for larger depreciation deductions.

Aug. 23, 1985, is the magic date for making the election for any stock purchase that occurred between Sept. 1, 1982, and Nov. 30, 1984. Therefore, companies have an opportunity unusual in tax matters.

They can use the benefit of hindsight to determine whether their tax positions are better served by treating the acquisition as an asset purchase or as a stock purchase.

This opportunity arises because regulations were not issued until this April to clarify the legislation enacted three years ago allowing taxpayers to make this special election.

To give taxpayers the time to make informed decisions after reviewing the Treasury guidelines, they were allowed 120 days—ending on August 23—for the election.

GERALD W. PADWE is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

*"The new clock
diagram should be there.
I just faxed it."*



*"Perfect timing, Hans.
Perfect timing."*

There was a meeting in Chicago to present clock diagrams from Zurich. Everything was there. Except the newest diagrams. They were still in Zurich.

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Flying on Instruments

Robert Allington's innovations and courage explain why he is Small Business Person of the Year.

By Frederic Hron

ROBERT ALLINGTON was named a National Science Foundation Fellow in 1959, a prestigious appointment that practically guaranteed its recipients a major university research position. He got the expected number of inquiries, but not one offer.

"I wrote and told them of my interest, but there were no replies when I mentioned my wheelchair," says Allington, who contracted polio in the sum-

mer of 1955, as an intern at the Massachusetts Institute of Technology. "I considered this an interesting datum."

Allington's reaction—not bitter, but appraising—helps explain why he was able to turn a setback into an advantage, going into business for himself and eventually creating ISCO, Inc., a \$20 million manufacturer of electronic instruments for scientific research.

Not only is he founder, chairman and chief executive officer of the Lincoln, Nebr., firm, he is responsible for more than 100 of its patents—patents that have kept ISCO on the leading edge of

instrumentation technology. His accomplishments have been recognized by his selection in May as the National Small Business Person of the Year for 1985. He was chosen from among 52 finalists—one from each state plus Puerto Rico and the District of Columbia.

The U.S. Small Business Administration conducts the competition. A winner is chosen by a panel of judges on criteria that include sales growth, job creation, product innovation and a record of overcoming adversity.

Allington, 49, has excelled in all categories, particularly the latter. He was hospitalized for three years in Massachusetts and Nebraska for the polio, which threatened to rob him not only of his mobility but also his life. The disease left him wheelchair-bound, with no use of his legs and limited movement in his upper arms.

He got his start in the scientific instrument business while recovering from polio in 1958. His father was chairman of the plant pathology department at the University of Nebraska at the time, and Allington knew many of the university researchers. One suggested that he apply his skills to repairing scientific instruments during weekend furloughs from the hospital.

With a partner 18 years his senior in machinist Jake Schafer, Allington started an instrument repair business. Schafer held a job while in business part-time. "After about a year of repair, the university scientists began to ask us to make specialized gear," Allington says. These requests always were for oddball, one-of-a-kind instruments, such as a device to measure the

FREDERIC HRON is business editor for the Argus Leader, the daily newspaper in Sioux Falls, S.D.



Robert Allington's busy life as inventor and community activist come together at home. At left, in his restored house with some of his firm's products. Above, wife, Mary (left), grandson Jordan Hasselbach, daughters Missy Hasselbach and Risë Mitchell.

PHOTO: TED KIM



Allington and design engineer Joe Tehrani with ISCO's scanning electron microscope, an unusual instrument for a small firm.

area of a leaf. During this period the company incorporated and took the name of Instrumentation Specialties Company—later shortened to ISCO.

Challenged by one university faculty member, Allington designed ISCO's first marketable product, a device called a fraction collector. He produced a brochure about the \$400 instrument for less than \$40 and used his father's directory of members of the Agricultural Research Service as a mailing list. "Lo and behold, we got inquiries and orders back," he says. "It wasn't a big rush of orders but enough to make it worthwhile. It was maybe one or two orders a month, which is not bad for a part-time business when you're doing other things."

The "other things" were Allington's duties as a National Science Foundation fellow. He was scrupulous in observing foundation rules that prohibited outside work during the school year. The time he devoted to ISCO came on summer vacations and holidays. During these breaks, Allington would work feverishly designing special instruments; then Schafer and an employee who had been hired would use the drawings to assemble the instruments.

It was under such an arrangement that Allington designed a telemetering system that detected and recorded acidity, pressure and certain other chemical changes in the stomach of a live cow.

The device, although it did not sell, earned Allington a national prize from the American Society of Electrical En-

gineers and caught the attention of an executive at an agricultural company, Feed Service Corporation. The CEO asked Allington to design a similar telemeter in the fall of 1959. About two months of work resulted in a machine that sold for \$10,000. "That was when I decided that business looked pretty good to me," Allington says.

In 1960 ISCO moved out of Allington's garage laboratory and Schafer's basement machine shop, and into a 1,800-square foot building, financed in part by the proceeds of the equipment sale to Feed Service Corporation. A year later, with his National Science Foundation fellowship over and no job offers in hand, Allington joined ISCO full time, drawing a salary for the first time. The company developed rapidly in following years, expanding three times. By 1966, when ISCO employed about 50 people, it discontinued designing and manufacturing specialized, one-of-a-kind instruments because, as Allington explains, "they were too disruptive to monkey around with."

SCHAFFER, BELIEVING that the market for instrumentation was saturated, sold his interest in the business during this period. In order to raise enough cash to meet Schafer's \$30,000 demand—roughly half of ISCO's net worth—Allington issued stock to friends and relatives. He emerged from the stock offer with 60 percent ownership of ISCO, an equity position he retains.

ISCO was a winner almost from the start. Sales in 1961 were \$78,000. "We had positive cash flow from our depreciation, but we lost money," Allington says. In 1962, sales were \$142,000 and ISCO made money, a feat it has repeated every year since.

Today the company employs 400 people in two divisions, and sales are growing at about a 25 percent clip. The instrument division, located in the 105,000-square-foot headquarters, builds instruments used by chemists and biochemists to separate and identify the compounds in a chemical sample. It is one of 10 major manufacturers of instruments for chemists and controls a 1.5 percent share of a \$600 million worldwide market.

The environmental division, founded in 1969 at the dawn of the ecology movement, manufactures wastewater sampling devices, flow meters and environmental chambers for engineers involved in pollution control. This division works out of a separate 80,000-square-foot plant and has captured about 12 percent of a \$60 million market.

ISCO's instruments range in price from \$400 to \$17,000 and resemble stereo components with their rectangular metal cabinetry, dials and digital readouts. The largest instruments are the size of a small suitcase, the smallest are telephone-sized. Customers praise ISCO instruments for elegance in design, high performance standards, durability, ease of use and reasonable price. Allington claims ISCO instru-

ments provide greater value for the dollar than those of competitors.

Friends and acquaintances in business and academic circles attribute the success of ISCO to Allington's brains and interdisciplinary talents. "He's the entrepreneur's entrepreneur," says Stanley Liberty, dean of the College of Engineering at the University of Nebraska. "He's got the ideas and the ability to bring them to fruition."

A lot of people have ideas, but most can't deal with the business side of an enterprise, Liberty says. He says Allington, however, has a broad knowledge of the scientific fields in which he works, an innovative mind, the management capabilities to produce his inventions, the resources to finance them and the marketing savvy to sell them.

Allington is modest about his contributions to ISCO. If he were to leave the company suddenly, "the environmental division wouldn't even miss me," he says. "The instrument division would miss me, but there are some talented people who would step in. My job is set up to use my talents as a scientific generalist. Most companies don't work this way."

A holder of master's degrees in electrical engineering and chemistry, Allington recently was awarded an honorary doctor of science degree from the University of Nebraska. He credits himself with being "one heck of a good circuit designer," but grades himself as only a "fair" optical designer and chemist. "I'm real good at keeping up with ideas that involve combinations of these and mechanical things," he says.

Allington devotes half his time to product development for the instrument division, working in an elaborate laboratory that adjoins his office. ISCO spends about 10 percent of sales on research and development, he says (about \$2 million this fiscal year).

"Probably the biggest worry—and it's a healthy worry—is that you're keeping up and advancing technologically," Allington says. "I think we're doing well in that. But it's not that I don't worry about it."

Observers say Allington is a practical businessman. He won't manufacture an instrument on technological ingenuity alone; there has to be a broad market for it. Nevertheless, there is pressure in the industry to keep one step ahead of the market, if only to cultivate the corporate image as technological leader.

ISCO has succumbed to that pressure with its newest instrument, an advanced version of a separation device

known as a liquid chromatograph, which is manufactured to the thousandths of an inch in order to make separations of chemical compounds from samples as minute as a few living cells.

The instrument has received critical acclaim for its technology. As far as its commercial success, Allington says, the jury is still out.

In terms of his managerial acumen, Allington believes he would have made



Allington works with design engineer Dan Jameson in Jameson's lab. The lab is attached to Jameson's office—a concept that Allington strongly favors (he does his own work in a lab adjoining his office).

a lot fewer mistakes nurturing ISCO if he had had a business background. His has been a management of trial and error, he says. In the 1960s, ISCO grew only as fast as its cash did. Banks would not lend the company money on the theory that it was too small and the investment was too risky, Allington says.

By the 1970s, ISCO had issued tax-exempt industrial revenue bonds to build its headquarters, and company books continually carried more than \$1 million of short-term borrowing. If ever ISCO faced a life-threatening situation, this was it.

"We were always in a state of crisis," Allington says. Improper control of an inventory of more than 70,000 parts was to blame. Manufacturing was periodically disrupted; work stations were idled by lack of parts, either from vendors or from in-house production. All this was due to an inefficient computer system that was incapable of managing manufacturing flow, Allington says.

HIS SOLUTION WAS to buy a powerful new computer and hire programmers who worked 18 months to create a system tailored to ISCO's needs. "A couple months after the new computer system was up, the problems ended," he says. "In one year, our inventory costs dropped one million bucks, even though sales were climbing."

That reversal helped make ISCO cash-rich. The company currently has about \$2 million in savings, half of which will be tapped this year to buy

new plastic mold injection machinery.

The computer system ended idleness at work stations. That, combined with consolidation of the company's divisions into two buildings, improved employee morale, which in turn resulted in better product quality. "Our product failure rate now is less than 1 percent," Allington says. "That has allowed us to extend our warranty from one to three years."

Though Allington believes his physical handicap gave him a single-mindedness that was necessary to succeed in business, business has not been the only thing on his mind. His interests extend beyond the realms of science.

An art lover, he has covered his office walls with a variety of works—from abstract sculpture to the surrealist drawings of M.C. Escher to paintings of rural landscapes. Along one wall is a glass case containing a collection of antique pistols, the oldest a flintlock dating to the 1750s.

Allington and his wife, Mary Lynn, are restoring their 76-year-old home, which has been listed on the National Registry of Historic Places; he is a member of the National Trust for Historic Preservation. He discovered the house while serving two terms on the city's planning commission.

Allington has served on several boards and organizations for handicapped people. He sits on the board of directors of the Lincoln Chamber of Commerce. Nebraska Gov. Robert Kerrey has appointed Allington to three statewide committees.

Friends marvel at the level of Allington's community involvement, particularly because of his handicap. "He absolutely makes use of all of his time in a very productive manner—far better than most of us," says Reuben Rieke, chairman of the University of Nebraska chemistry department.

Gov. Kerrey, himself disabled by the loss of a leg during the Vietnam War, says he has been impressed with Allington since the first time they met—some 20 years ago when Kerrey, working for his father, helped build two of ISCO's early manufacturing plants.

"When you look at Bob Allington, you begin to feel good about yourself," the governor says. "You begin to believe you can get things done. If you examine him closely, you'll find lessons in Bob Allington's life that will almost guarantee that you'll be successful."



To order reprints of this article, see page 65.

Reviving a Company

Frances Shaine made sure she knew all the ropes after she took over her family firm. Then she acted.

THE NAME of the game is learning, says Frances Shaine, and her own experiences in taking over a family business that was on a downward path offer powerful support for her viewpoint.

SPM Manufacturing Corporation was losing market share in an increasingly competitive industry—photo albums, scrapbooks, calendars and related items—when she became chairman in 1980.

Shaine had pursued a career in other areas and was not familiar with the company's day-to-day operations. So, rather than move precipitously, she spent a year learning every aspect of the business, while a general manager ran the company.

At the end of the year, she was ready to start reviving the company—which, she says, had become "a sleeping giant" over the preceding years.

She developed and implemented a multiphase strategy designed to recapture SPM's lost market share, then expand it. Specific goals included:

- An increase in sales outlets.
- More variety in the product mix.
- Greater emphasis on creativity and cost control.
- New equipment to boost capacity.
- A new name.

The company was originally called Springfield Photo Mount to reflect its location in Springfield, Mass., and its product—mounting tabs that held photographs in albums. But the Springfield part of the name was long outdated—the company had moved decades earlier to Holyoke, Mass., when better facilities than those it had occupied became available. And "photo mount" was too narrow for the product mix Shaine had in mind.

Shaine says the name SPM was adopted to give a fast-changing company a more contemporary title.

Some goals, like obtaining more sales outlets, were achieved through acquisitions. SPM's mass-market sales had been concentrated on variety and discount stores, including drug chains. In 1982 SPM acquired the assets of Robin-son Reminders, an old-line manufactur-



A more varied product mix was on Frances Shaine's agenda when she became chairman of SPM. Five years later, she displays evidence of how the goal was met.

er of stationery and pocket calendars—a move that brought access to the more upscale independent stationers and to department stores.

The takeover of Spindex Corporation's printing and binding facilities that same year added spiral-bound books to the product mix, which was further expanded by in-house development of heat-resistant desk pads, the Agenda diary line and a line of briefcases and attache cases.

SPM was first in its market with bonded-leather covers on photo albums, Shaine reports. That material, made from leather scraps and adhesive, provides a much less expensive way to produce leather covers than use of hides, which are costly and have a high waste factor.

Two months ago the company introduced a newly designed photo album with square "rings," instead of the traditional round rings, to hold the pages. The design, Shaine says, "makes it easier to turn the pages and gives each album a more compact and pleasing look."

And the installation of new production equipment, Shaine says, has given the company the capability of filling or-

ders for any of its products "in any volume in a very short time."

She cites a frantic call last summer from a customer who needed a shipment of 10,000 photo albums each day for nine days, starting almost immediately. That meant 90,000 albums with a total of 9 million pages.

"We were shipping those extra truckloads to them within three days of their phone call," Shaine recalls. "That was in addition to our regular production."

UNDER THE expansion program, employment at SPM grew more than 50 percent, to 300 workers—and to 500 in the peak fall season.

"SPM is definitely one of the industry's leaders," Shaine says. The privately held firm does not make public its production or sales figures. Shaine says that is traditional policy in an industry made up mostly of closely held firms.

The Shaine family's connection with the company goes back to 1922, when the present chairman's grandfather took over Springfield Photo Mount after it was unable to repay money he had lent it. Shortly thereafter, the F.W. Woolworth Company, a customer, suggested that SPM expand into making



Shaine's leadership has sparked product development. SPM was first in the market with bonded leather photo albums, cheaper than those made from leather hides.

photo albums as well as the mounts. The company took that advice.

Shaine's grandfather died in the early 1950s, and her mother, a lawyer, became chairman. Shaine entered Wellesley College in that period and graduated with a degree in English. She married, had three children and, when all reached grade school, embarked on what she calls "a checkered professional career."

Her first job found her writing advertising copy for a Manchester, N.H., radio station. She was then, successively, a copywriter and copy chief for an ad agency, a contributing editor to a regional feature magazine, *New Hampshire Profile*, and a free-lance writer and editor of technical material.

Her assignments in the latter job included one from New Hampshire's state director of planning to edit a series of major reports on the state's economy, demographics and natural resources. She moved from that assignment into full-time work as a technical editor in the planning agency.

THEN HER CAREER took a surprising turn, one that was to make her an expert on the rail freight industry. When Congress passed the Regional Rail Reorganization Act in 1974, a 17-state planning group was formed to analyze problems, capabilities and potential of the freight rail systems within those states, and the governor of New Hampshire appointed Shaine his representative on the panel.

"There was no one around in the state government who had a rail transportation background," she recalls. "But, because I was available and had acquired a working knowledge of the state, I was selected."

The job gave her a crash course in the rail freight industry and training in such executive skills as helping to develop a consensus among groups and individuals of diverse views. She also represented her state and the multi-state planning group in testimony before Congress. Eventually, she became chairman of the executive council of the National Conference of State Rail Officials and head of the transportation committee of the New England Council, a regional business organization.

Shaine left the rail position to take over the top job at SPM from her ailing mother. She was always aware that she would head SPM one day and believes that the many jobs she has held helped build a base of worthwhile experience.

"As varied as they have been, all the jobs contributed to my position today," she says. "I've been able to hone my verbal and writing skills. The more experienced I become, the more aware I am of how critical the art of communication is. And I've acquired the poise to deal with the world."

Her experiences with bureaucrats in her various positions have given her a viewpoint not shared by all business people:

"Sometimes it is difficult to deal with government officials, but I don't condemn all bureaucrats. Many are hard-working people with a very real sense of public interest. And I know how good it can be when they work with business. I feel strongly that, when we condemn our government, we're in effect condemning ourselves."

There is a strong family presence in SPM Manufacturing Corporation. Shaine's husband, Robert, is president and head of marketing and sales. Son William supervises the factory opera-

tion. Daughter Abbe, a Washington-based lawyer, handles SPM's international affairs. (A second son, Josh, is a student at Harvard's Graduate School of Education.)

"This may be a family enterprise," Shaine says, "but as long as each employee is an industrious and efficient worker and wants to learn, there is room for growth and promotion."

Discussing her management philosophy, Shaine says the key to business success is an active and involved management that sets an example of hard work, which is "translated down to the employee ranks."

She maintains an open-door policy that brings a constant parade of managers and rank-and-file workers through her office. "It's a cooperative team effort all the way," she says. "Everybody is on a first-name basis."

Shaine adds, however: "It is not a democracy. In the end, there has to be a decision maker, and all the members of the team have to abide by the decisions."

At SPM, the decision maker is obviously Frances Shaine. Peter Mascolo, a competitor who is president of Kleer-Vu Plastics Corporation, Brownsville, Tenn., says of her: "There's nobody propping her up. She and her husband complement each other very well, but a lot of the changes and successes at SPM, including its more aggressive posture, are attributable to her. She's a sharp and astute lady, with a fine command of the market."

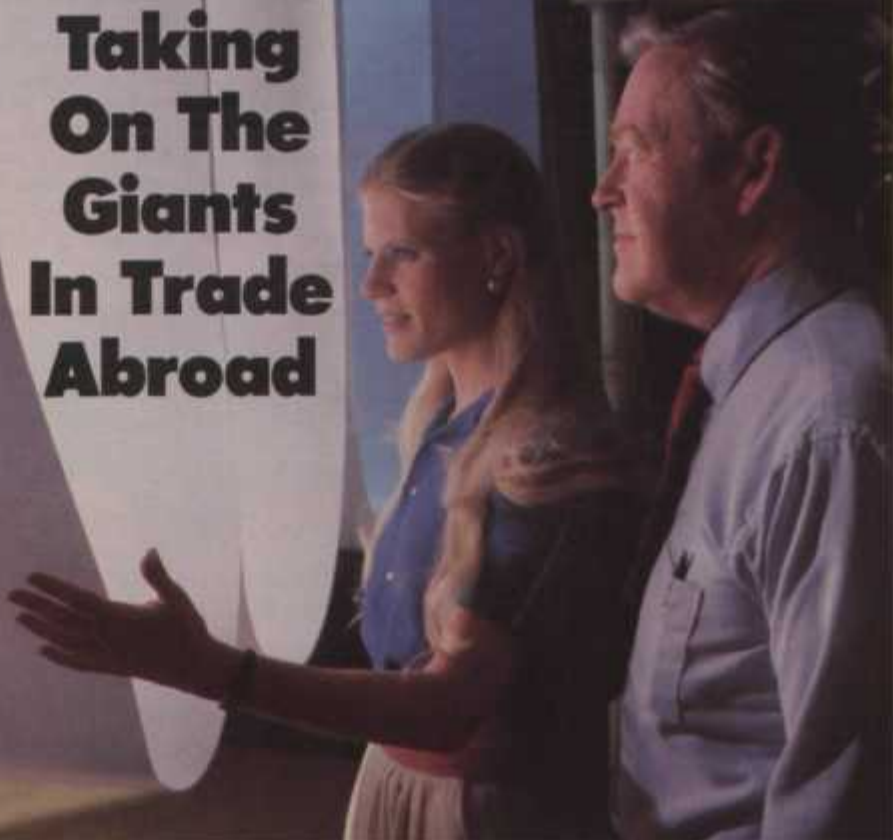
SHAINES HAS GAINED recognition in the larger business community with her election as chairman of the Small Business Council of the U.S. Chamber of Commerce. The council is a major link between smaller enterprises throughout the nation and top officials in the White House, Congress and federal government executive agencies.

At the same time, Shaine, who is a U.S. Chamber director, sees no inherent conflict between small and big business:

"I think business is difficult for everybody, whether you're large or small. Small companies may have less power, but it's hard for me to believe that we have more problems than big ones do under normal circumstances. For any size firm, it's a question of doing your job right, carrying your message properly to the marketplace and working efficiently."

Looking back over her "checkered" career, Shaine says, "I'm happy with what I've attained. The key has been keeping my eyes open to opportunity and to learning. It keeps you a young and vital human being."

Taking On The Giants In Trade Abroad



PHOTOS: SCOTT BINE—PICTURE GROUP

Elizabeth Gould and her dad launched a marketing program at their photo supplies business that won her an SBA award as Exporter of the Year.

By Henry Eason

WHEN AN OCCASIONAL foreign order for photographic supplies came in over the transom at St. Louis' tiny National Graphics, William R. "Bob" Gould and his daughter, Elizabeth, were more curious than excited.

The company was only two years old, and it was devoting virtually all its resources to building a domestic clientele. The international market was dominated by giants like Eastman Kodak, Agfa Gavaert, E. I. du Pont de Nemours & Company and 3M.

But in 1976, as overseas sales neared \$400,000, father and daughter started thinking about developing an export marketing program.

Fresh from Stanford University, Elizabeth Gould was working then down in the rosy dark safe-lighted basement plant where photographic materials are manufactured. She came upstairs to the company's offices with a few months' knowledge of quality control and a biology degree. Her father leased a telex machine for her and told her to create an international department.

"We didn't hear from Liz for a while," he says, chuckling.

Some of her early experiences with the bewildering, complicated world of global trade still make her laugh. In the beginning she did not understand the function of a letter of credit, the most common international method of payment. She filed the first one she got,

instead of presenting it to her bank for cash.

"We didn't get paid and didn't get paid," she says. "My worst suspicions were confirmed: National Graphics had been robbed by a Mexican businessman. He may have pulled the wool over my eyes, but he was going to hear about it. I composed a telex of such fervor that I was sure his telex machine would be burning and he would feel so guilty about taking advantage of a young and struggling company that he would probably catch the next plane to the United States and present us with a till of cash."

Instead, she listened with a crimson face while the nature of a letter of credit was explained to her—both by the Mexican and later by her own bank.

That first year she plunged into every seminar anyone offered on exports.

She read voluminously, joined trading societies, sought advice everywhere.

Export sales nudged up to \$528,000 in 1977 and above \$751,000 the following year. In 1981, National Graphics International (its new export-tilted title) sold more than \$2.1 million abroad, an impressive 24 percent of gross sales.

Last May, the Small Business Administration named Elizabeth Gould Exporter of the Year, after she was nominated by her peers in Missouri and then chosen by a panel of government, academic and private sector trade experts. Her SBA award was no mean accomplishment for a low-tech manufacturer at a time when basic industry in the United States is suffering from the worst trade deficit in its history.

It is also encouraging to tens of thousands of other small firms for whom adverse trade winds make export sales seem an almost impossible dream.

She says a lot of the credit for National Graphics' success belongs to her father, president of the company: "I could always feel him right behind me." With his daughter (who is vice president), he joined the World Trade Club of St. Louis and the Commerce Department's district export council. In 1979 he was named Missouri's Small Businessman of the Year, and he was a delegate in 1980 to the White House Conference on Small Business.

Plying wares abroad has been diffi-

cult in recent years, says Bob Gould: "The strong dollar makes U.S. goods cost 30 percent more than they did four years ago. And many parts of the world are still in a recession, keeping protectionism very high and making it doubly difficult for us to get in."

Trading is tough now, Gould says, but he adds: "The companies for whom we should feel sorry are those that have not put themselves in this world market. They are the ones that will be

Goulds passed along that saving to customers. "Then," says Elizabeth Gould, "we really bit the bullet and created a sliding-scale currency program. For every country experiencing a decline in the strength of their currency in relation to the U.S. dollar, a base exchange rate was established. For every 2 percent the dollar strengthened against the base, National Graphics reduced the cost of products containing silver by 1 percent."



Special orders don't upset workers at National Graphics. The small firm can react more quickly than big competitors to requests for custom-made products.

surprised to find an Italian, Brazilian, Japanese or even a French company stealing their market here at home."

The Goulds practice the economic philosophy that protecting your domestic market means going on the offensive abroad.

Simply selling abroad did not win Elizabeth Gould the Exporter of the Year Award. What did was *how* she sold, in the middle of a trade storm.

In 1981, Elizabeth Gould began to notice the first signs of the dollar's upward swing.

By the time she and her father arrived in Dusseldorf, West Germany, in 1982 for a trade show, they were shocked to hear one of their best distributors tell them he was considering dropping the products they make for sale to newspapers, printers, advertising agencies and art studios. One after another of their European customers buttonholed them at Dusseldorf with the same message. Soon they were hearing from clients in Latin America and Asia, all complaining about the high dollar.

The fight was on to save their market share. That has been their goal, even above profits. They know how hard it is to build a world network.

The price of silver used in photographic paper was dropping. So, the

Two years later, the Goulds were still chomping on the bullet. In 1984, letting their bet ride on market share, they raised their "burden sharing" program to a 10 percent discount, this time on all products exported. And they held their prices down for four years.

Now, says Bob Gould, "There is nothing left to give. Our margin is gone."

National Graphics' domestic profits are having to sustain the company until foreign economies rebound and the dollar edges downward.

The "no-frills" marketing structure the Goulds created in 1976 also accounts for their staying power at a time when other small and medium-sized firms have seen their own exporting efforts wrecked.

AT THE START, the Goulds rejected fielding a team of salaried salespeople; the overhead would be too high, they decided. Instead, they formed arrangements with established foreign distributors who already sold allied lines of products. They simply provided new pages for these vendors' catalogs, after hosting them in St. Louis for a short training period.

"We found that international distributors were larger and better equipped, with more machinery and trained personnel than the average U.S. dealer,"

says Elizabeth Gould. "They could handle their own sales presentations, service, advertising, importing and financing. Considering language differences, distance and all, it was felt they could do these things better and cheaper than National Graphics."

The Goulds also gave their foreign distributors exclusive territories and discounts for domestic costs—advertising, transportation and so on—the Goulds would have incurred. This better cemented their relationships with the distributors.

Says Nicholas Chiapelas, president of Keeler Morris Printing Company in St. Louis: "They are people-oriented. They maintain close personal relationships throughout their organization. They do their homework, take prudent steps and are quietly aggressive in pursuing their goals. Their enthusiasm is contagious."

FOSTERING a family atmosphere among their 87 employees in St. Louis also translates into export success. With the personal involvement of their employees, they have been able to produce special orders sometimes within days—a maneuver their high-volume multinational competitors cannot perform.

And they develop products that their customers suggest in much less time and with much more personal attention than the large corporations.

Last year National Graphics topped \$13 million in sales; \$2.2 million of that was in exports. As a percentage of total sales, exports have fallen from 24 percent in 1981 to 17 percent last year. Nearly all of that decline, the Goulds say, is dollar-related. And yet, they are planning for the day when they can open foreign factories and innovate in high technology.

"It's only the beginning," says Elizabeth Gould.

She has become a national advocate for small business exports. Addressing the Alabama Export Council in Tuscaloosa recently, she said, "The question of 'Is it the right time?' always comes up. There's never a perfect time for anything, and if your product has a market overseas, start laying the groundwork now. Think deeply about your export program and channels of distribution. The U.S. dollar is overvalued and will swing back. Be in a position to take advantage."

More important, she continued, American business people, regardless of the size of their businesses, must realize that they are in a world market. "We must learn to meet the competition on their home ground before they meet us on ours," she said. "Because then it will be too late. Just ask the steel, auto and textiles manufacturers."

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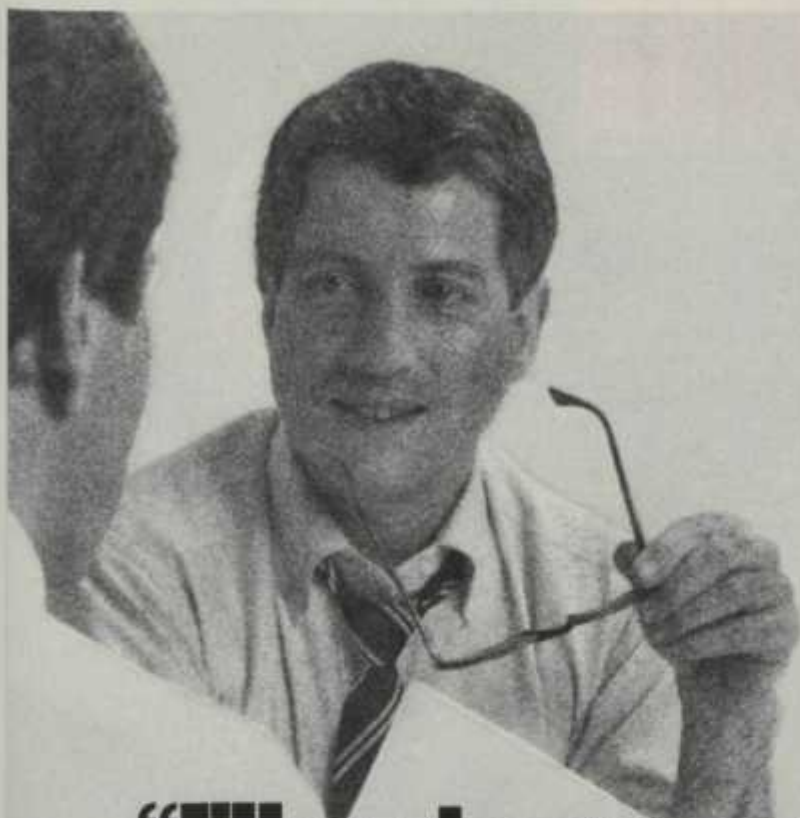
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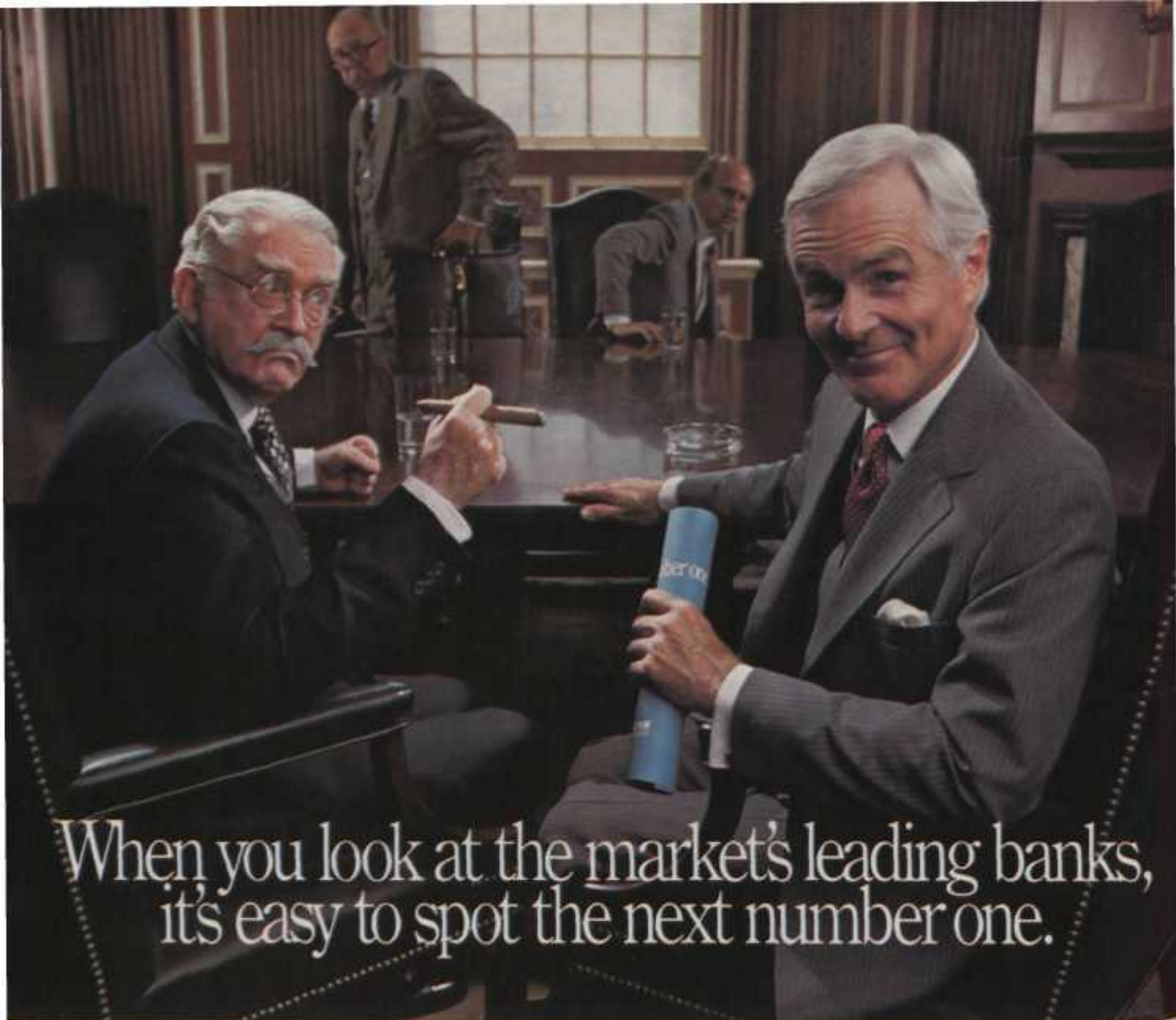
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TURKEY



Turkey is a modern nation with deep historical roots.
Upper left: Istanbul's Ortaköy Mosque in front of the
Bosphorus Bridge; upper right: a Borusan Group steel mill;
middle right: a Gema Industries power plant on the
Aegean; bottom: hand-painting porcelain.

TURKEY

Land of Private Enterprise

DURING the past two years under a free enterprise-oriented government, Turkey has flung wide the door to imports and rolled out the welcome mat for foreign investment. The process had its beginnings in 1954 but really began moving in earnest in 1980.

As a result, a steady stream of American, European and Japanese business people have been coming to Turkey to see if it is for real and are finding that it is no mirage. In 1983 and 1984 combined, foreign investment flowing into this land that bridges Europe and Asia Minor equaled more than 40 percent of the total for the past three decades—nearly \$1 billion.

"While this is highly gratifying, it represents only a fraction of our investment needs," says Prime Minister Turgut Ozal. This past spring, speaking to a group of key business executives as-

sembled at the U.S. Chamber of Commerce headquarters in Washington, Ozal emphasized the stability of the civilian government that has been formed by his Motherland Party:

"I deeply believe that democracy, to be lasting and healthy, must be coupled with a free market economy.

"My government has launched the Turkish economy on the free market path. We have made free enterprise and private initiative the main engines of Turkish economic growth. . . . Today the government's function is to provide the infrastructure required to allow the private sector to achieve its potential."

An enthusiastic point man for the government is Adnan Kahveci, 36, senior adviser to Ozal. Kahveci spent a decade in the United States, earning an engineering degree from Purdue, followed by a master's and doctorate in engineering

from the University of Missouri. He held a faculty position at Missouri before deciding to return to Turkey and join with Ozal in the founding of the Motherland Party. He was deputy party chairman and headed the public information effort.

"With the 1983 elections we brought a new spirit to this country and a different kind of leadership," says Kahveci. "Eighty percent of the party deputies elected are successful entrepreneurs. We have the youngest cabinet in Turkey's history."

Prime Minister Ozal told U.S. business leaders:

"We are demolishing the protectionist walls which cloistered Turkey for 50 years. We have removed almost all protective quotas and restrictions on imports. Now all commodities can be imported into Turkey freely on payment of custom taxes, which are minimal for in-

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GENERAL DYNAMICS

TURKEY

dustrial raw materials and intermediate goods."

Along with this, points out Kahveci, the government reduced regulatory obstacles and red tape impeding the export of Turkish goods and services, specifically stringent currency regulations that nurtured a thriving black market. Foreign currency regulations have been revamped and today the exchange rate, set daily by the Central Bank, is more realistic. For all practical purposes the black market has dried up.

"Our foreign exchange regulations are the most open in all of Europe," Kahveci contends. "Foreigners can open foreign exchange accounts in Turkey, such as those in a Swiss bank. You can buy foreign currency openly, open an account and write a check to a Swiss bank, for example. We are completely open now."

According to government figures, this new relaxation has also stimulated the large contingent of Turkish citizens working abroad. Under the new regulations Turks now may hold foreign exchange deposits without limit in banks in



The modern plant of Altinyildiz, Turkey's leading manufacturer of woolen worsted goods and apparel. The company has done well even though its market is not protected.

Turkey and abroad and may make investments abroad. As a result, the inflow of foreign currency formerly held by Turks in foreign banks reached \$1.2 billion in 1984.

There are those who want even faster changes, such as Kemal Kurdas, chairman of the executive committee of Sezai Turkes Feyzi Akkaya Construction Company, a major engineering and construc-

tion firm based in the Greater Istanbul area on the Asia Minor side.

A former minister of finance and university head, an Ozal supporter and adviser, the outspoken Kurdas says that in his opinion the economic measures "have not been taken to the proper limits... to their natural conclusion."

Though Kurdas and such scholars as Erdogan Alkin, professor of economics

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at the University of Istanbul, want to strike while the iron is hot, they recognize and laud the strides that the Ozal government has made.

Kahveci, who is in charge of the de-regulation movement, cites the process of obtaining a driver's license as an example. In the past it took months to obtain one. Now it takes 15 minutes.

This outward look has produced lower prices for the consumer and has had an awakening influence on Turkish producers. Kemal Varol, the 42-year-old general manager of Altinyildiz, Turkey's leading manufacturer of woolen worsted goods and apparel, says that today his firm is selling its woolen materials for about half what it was getting in the protected market three years ago and still making an acceptable profit.

"We did it by becoming more efficient. We reduced unit costs and became, as you Americans say, 'lean and mean.'"

In 1984 exports of Turkish goods rose a whopping 26 percent over the 1983 level, a remarkable performance considering the recession in the economies of the oil-exporting Middle Eastern coun-

tries, which account for nearly 40 percent of Turkish exports.

In 1979 industrial products accounted for 35 percent of Turkish exports while in 1984 that sector provided 74 percent of exports. This performance reflects the nation's growing industrial base and competitiveness in world markets.

At the beginning of 1980 Turkey's GNP growth was negative; in 1984 it was growing at a 5.8 percent rate, a pace not seen since 1976. Turkey has paid off almost \$3 billion of foreign debt, and foreign currency reserves now are at the \$3 billion level. The Ozal government has a stated goal of removing all state monopolies, such as tobacco and alcohol, within the next five years.

TURKISH BUSINESS leaders are optimistic about the future. Yuksel Ermitan, chairman of Gama Industries, a major engineering firm based in Ankara, the nation's capital, says: "The privatization program will go forward and be successful because it has wide public support."

Turkey is one of five nations with which the United States has a positive

trade balance. The United States exported \$1.249 billion to Turkey in 1984 while importing \$432.6 million. Last February Turkey acceded to the GATT subsidy code, which commits it to phase out and eliminate export subsidies. Later Turkey and the United States signed a bilateral pact making the code effective between the two countries.

Prime Minister Ozal, who on his visit to Washington expressed dissatisfaction with U.S. restrictions on imports of Turkish textiles and apparel, told U.S. business:

"We know that much remains to be done. We know the arduous task ahead of us requires encouragement and the assistance of foreign investment and participation. American capital and enterprise will figure prominently in that."

Perhaps Kemal Kurdas of Sezai Turkes Feyzi Akkaya articulates best the prospects for the future of his country: "With a rational marketing system in place and working, inflation under control, the investment potential will be incredible. Turkey is the country for the future." ME

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TURKEY

Foreign Investment Is Welcomed

IN PAST DECADES, particularly 1930 through 1970, Turkish economic development focused on import substitution and insulating domestic industry from foreign competition. As a result Turkish industry found itself unable to compete effectively in the world market.

Turkey's leaders abandoned the self-defeating imports policy in 1980 and adopted an economic stabilization and liberalization program, basic to which was subjecting the economy to market forces and foreign competition.

Recognizing that attracting foreign investment was key to the nation's success in becoming a major factor in world trade, Turkey has made sweeping changes in its investment laws and regulations.

As a result, says Namik Kemal Kilic,

director of the Foreign Investment Directorate in the State Planning Organization, 81 percent of all foreign investment in Turkey since 1954 has occurred in the past five years. That was the year Law 6224 was passed, a law that clearly encouraged foreign investment. Of the total of \$1.204 billion invested since that time, \$976 million came between 1980 and 1984.

To expedite foreign investment, the government of Prime Minister Turgut Ozal has designated the Foreign Investment Directorate in the Office of the Prime Minister as the single authority in Turkey for all foreign investments except oil exploration, which is handled by a



Prime Minister Turgut Ozal has placed Turkey firmly on the path to an open market economy.

General Directorate of Petroleum Affairs in the Ministry of Energy and Natural Resources.

The FID is organized to provide one-stop service to investors. The major functions of the office are to give guidance and assistance, evaluate investment proposals, issue licenses and monitor the investment projects.

Generally, authority for approving foreign investment rests with the Council of Ministers. The FID is authorized, however, to grant permission directly to projects in which the total fixed capital investment is not more than \$50 million and the foreign capital share is between 10 percent and 40 percent; and to tourism projects where foreign investment may be 100 percent.

Law 6224 on the Promotion of Foreign Investment clearly specifies that permission will be granted to foreign investments that contribute to Turkish economic development. They must be in an area of activity open to Turkish private enterprise, and must not create a situation that could give rise to a monopoly or special privileges.

Agribusiness and mining, formerly closed to foreign investors, have now been opened.

Law 6224 and Decree 30, which concerns foreign exchange, provide foreign capital the same rights and obligations as local capital and guarantee the transfer of profits, fees and royalties and the repatriation of capital in the event of liquidation.

AS A FURTHER inducement to investors concerned with inflation, a new decree allows companies to revalue assets to account for inflation to protect working capital.

Although incentives may vary according to location, type of product or service and export potential, the liberalized economic program has in essence turned the entire nation into a free trade zone.

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for export oriented companies. Generally the incentives are:

- Exemption from custom duties and other import taxes.
- Investment allowances of up to 100 percent of total investment.
- Medium term domestic credit at subsidized interest rates.
- Short term export credit at subsidized interest rates.
- Tax rebates of up to 22 percent of export earnings.
- Deductibility of 20 percent of export revenues from taxable income.
- Retention of 20 percent of export revenue to be used as foreign currency.

"Turkey is the safest place for foreign investors in all of Europe," says Adnan Kahveci, special adviser to the Prime Minister. "No business has been nationalized under Law 6224. Turkey is the land of opportunity."

Not only may the foreign investor freely transfer his profits abroad, he may reinvest them in the original enterprise. Nor are there any restrictions on principal payments on foreign debts.

When modern Turkey was formed af-

ter World War I, national companies were created in key sectors. But even these state enterprises, Kahveci says, were meant to be privatized once they matured.

THE FIRST MOVE toward privatization was to sell shares in the suspension bridge that spans the Bosphorus, linking Europe and Asia Minor at Istanbul, and the Keban Dam. The shares, which give participatory rights in the revenue of the bridge and the dam, were sold out within hours.

The next target is THY—Turkish Airlines. A public offering is being prepared giving the airline's employees the first opportunity to purchase shares and own an equity in their company.

Another example of the privatization effort is what Prime Minister Ozal calls "Build, Operate and Turn Over," which is a program that will encourage the financing and construction of nuclear power plants. Canadian and West German groups have shown an interest in the concept, under which they would build nuclear plants, sell the energy pro-

duced under a long-term contract to achieve profitability and then turn the plants over to the Turkish Electricity Association.

Also liberalized have been the employment of foreign nationals and their right to transfer savings out of the country. But Turkey generally is able to provide trained personnel at much lower wages, and foreign concerns usually have minimal foreign personnel.

Turkey has 780,000 square kilometers of land, blessed with a varied climate, that produces a wide variety of products. Turkey is essentially self-sufficient in minerals.

Human resources are also a Turkish treasure. Grade school education is mandatory in Turkey, and some 60,000 college graduates are produced annually by the nation's 60 colleges and universities. A. Ahmet Kocabiyik, director of foreign trade and member of the board of Borusan Holdings, A.S., an Istanbul-based conglomerate, contends that the nation either has the qualified workers or can train them.

The 29-year-old Kocabiyik, who heavi-

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Altinyıldız

TURKEY

ly mixed management courses with engineering in earning a master's degree from Carnegie-Mellon University, points out that Turkish institutions of higher learning offer modern management courses and that technical high schools and trade schools provide technical training and are good sources of trained manpower. Companies like his conduct their own training programs.

THE TURKISH Foreign Investment Directorate says that five areas of the economy are the most promising for foreign investment: agribusiness, mining and petroleum, tourism, manufacturing, and infrastructure projects.

Turkey, one of the few nations that are self-sufficient in food and textile commodities, is a major exporter to the Middle East and North African countries.

According to the FID the most promising areas are in the seed, poultry, livestock and fruit and vegetable industries. All mineral rights belong to the state and the government mining enterprise, Eti-bank, which has responsibility for exploration and mineral extraction, has silver,

copper, aluminum, perlite and marble projects available for joint ventures. Gama Industries, a Turkish company, and Phelps Dodge Corporation, a U.S. firm, are embarking on a joint venture to mine copper.

In recent years petroleum exploration has lagged in Turkey. But with passage of a new law, the government has adopted a policy that encourages foreign companies to once again become active.

Tourism presents a bonanza of major proportions for Turkey, which is blessed with priceless antiquities and a favorable climate.

New legislation aimed at tourism promotion and investment is designed to stimulate construction of needed tourist facilities such as motels, hotels, marinas, private housing for foreigners and other enterprises.

Osman Kavala, president of the Ka-



Turkey has encouraged industries, such as the Borusan Group, to become competitive in world markets.

vala Group, an Istanbul-headquartered engineering and construction firm, says that not only is capital needed, but also management. Actively seeking joint tourism ventures, Kavala observes: "Foreign partners bring experience, and in the mind of Turkish partners this reduces the risk."

An economist trained at England's Manchester University, the 29-year-old

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Kavala feels that the government policy on investment has the support of the business community and that U.S. investors will find it easy to work with Turkish partners on joint ventures.

Switzerland, with 51 companies, is the leading investor, followed by the United States, West Germany, Libya and Holland. Other countries with companies operating in Turkey are Austria, Egypt, Belgium, Denmark, Finland, France, England, Iraq, Iran, Sweden, Italy, Japan, Canada, Kuwait, Bahrain, Lebanon, Luxembourg, Pakistan, Panama, Syria, Saudi Arabia and Yugoslavia.

While Turkey's industrial base is already extensive, the FID says that there are new opportunities in producing component parts for truck and aircraft manufacturers. In addition, these areas are emphasized:

- Construction materials and equipment for Turkish overseas and domestic construction firms.

- Electronics manufacturing potential. There is a supply of skilled labor and research and manufacturing facilities.

- Textile and apparel goods potential. Turkey is a major exporter of unprocessed cotton. Government officials envisage Turkish facilities, using modern technology and management, processing this cotton and combining it with synthetic materials to produce improved textile products and, eventually, apparel

goods for the Middle East and North African markets.

To further improve the infrastructure of the nation, the Turkish government has opened the door to development and operation of infrastructure projects to domestic and foreign private enterprise. High on the list are such projects as hydraulic and coal power plants, toll bridges and highway projects. The projects must be viable and self-financing, as was the case with the second bridge over the Bosphorus, a joint Turkish-Japanese project. R

Cooperation For Development

An example of growing U.S.-Turkish cooperation is the American-Turkish Fund, which was established in 1983 as a U.S. nonprofit foundation. The foundation is the outgrowth of a Harvard-Turkish University collaborative project that began in 1982 with the support of David Rockefeller.

The fund supports projects in Turkey in science and education, transfer of technology, manpower and skill development, business and management development, health and agriculture. Emphasis is given to projects and institutions in the private sector and to projects in which U.S. and Turkish institutions collaborate. Some of the projects the fund is presently considering are: 1) development of computer education in Turkish universities and schools; 2) support of graduate-level training of selected Turkish students in the United States; 3) support for the development in Turkey of more efficient management training programs and facilities; and 4) improved R&D capacity at the University of Bosphorus.

The fund continues to seek donations for its activities from individuals and corporations in the United States and Turkey. Write to: American Turkish Fund, 1255 23rd Street, N.W., Suite 400, Washington, D.C. 20037, (202) 862-1910.

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Feedback to Employees Can Nourish Your Business



ILLUSTRATION: WILLIAM COULTER

SUPPOSE YOU GO bowling. How long—and how well—will you bowl if you can neither hear nor see how many pins you knock down? If you are, in other words, cut off from information about how well you are bowling?

That is a question Robert C. Dorn likes to ask in management seminars when he discusses the importance of giving feedback to subordinates—providing them with information necessary to help them to continue doing a good job or to improve their performance.

Without such information—whether we are bowling or at work—we lose our motivation or we score poorly, according to Dorn, director of training at the Center for Creative Leadership in Greensboro, N.C.

Management experts agree that frequent feedback is essential. Yet many bosses find it difficult to give, even when the feedback is positive. Some of their resistance to giving feedback goes back to patterns set when they were growing up, says San Francisco management consultant Barbara Felton. "I remember my father having difficulty

complimenting me on the As that I got. It was a lot easier for him to say, 'How come you got one B?'"

Much of our reluctance also results from not knowing how to articulate feedback in a tactful way, Felton says. Instead of learning how to articulate it, we just avoid it.

But when managers fail to give feedback, Felton says, subordinates are unlikely to reach their potential. Furthermore, there is frustration on both sides. The employee feels he is not valued, and the boss wonders, "Why can't this person ever do anything right?"

Effective feedback tells an employee what your expectations are, says Felton. "He knows precisely what you want done and the way you want it done. Most employees are very willing to accommodate themselves to that and, in fact, are looking for that kind of structure."

Only a small portion of feedback should be critical, advises Dorn. "People should be doing things right about 80 percent of the time, so most feedback should be positive. Twenty percent or less should be negative."

Do not save feedback for periodic performance appraisals, Felton says. "As soon as somebody has done a terrific job, he needs to be patted on the back and reinforced. And as soon as somebody has behaved or performed unacceptably, he needs to get that feedback immediately."

THE TRICKY PART is giving criticism in such a way that you avoid defensive or emotional reactions on the part of the receiver. If you are nasty, calling the employee stupid or incompetent, he can no longer "hear" what you have to say, warns Dorn. "When you get a person aroused, it prevents additional information from being processed in the brain," he says. If the subordinate becomes angry or weepy, break off the discussion and try again later.

Likewise, Dorn suggests, do not give feedback when you are angry, because you may not be able to be accurate or goal-oriented. "Only give feedback when your intention is to be helpful."

Your own attitude is crucial. "Feedback given in an atmosphere of openness, mutual respect and support can

help powerfully to encourage improved performance," says Wayne L. Strom, professor of behavioral science at Pepperdine University. "But when the executive's attitude is clearly one of 'you dummy' or worse, he or she succeeds in eroding the quality of relationships—usually without enhancing product outcomes."

AN EXECUTIVE who chastises with sarcasm and then excuses himself as "only trying to lighten things with a joke" magnifies the problem, says Strom.

How, then, can you give feedback? Here are some guidelines:

- Keep in mind that feedback should be helpful to the person receiving it. According to Dorn's organization, the subordinate should be able to understand the information, to accept it and to do something about it. Do not give feedback if its only purpose is to make you feel better.
- Be specific and accurate. State what is factual and observable. If you say, "You're always late," notes Felton, an employee can easily shoot back, "That's not true. Tuesday I was here on time." It is preferable to say, "Three

times last week, you were 20 minutes late." It is more difficult for the employee to debate that and become defensive.

Positive feedback should also be specific. Instead of saying, "You're doing a great job," say something like, "Your report on the Hobbs project was on the mark. It gave our client just what he needed, and he is really impressed with what we can do for him."

- Feedback should be given in a way that communicates acceptance of the recipient as a worthwhile person. However, it should focus not on the individual as a person but on job performance, behavior or results.

- Encourage the subordinate to talk. "Attempt to reach an agreement on the cause of the problem," write Felton and Sue Ries Lamb, a San Francisco human resources consultant, in a recent trade journal. "An employee must first accept the existence of a problem before he can be motivated to correct it."

- Pick only one to three specific behaviors for the employee to work on (for example, "Greet clients in a courteous and pleasant manner"). Do not overwhelm the employee with too many different issues at one time, Felton and

Lamb advise. Select a few priorities, and when improvements are made, give positive feedback.

- Let the employee know what the consequences will be if there is no improvement. Will you dock his pay? Demote him? Fire him? Then, says Felton, "the employee has a choice to make—take the consequences or change the behavior."

Some managers like to give compliments along with negative criticism, but this may make the employee suspicious of the sincerity of the compliment. If a compliment is really sincere, Felton says, go ahead and offer it. "But if your motivation is just to couch the negative feedback, then resist it."

What should you do when you have done the best you can in giving feedback and the employee becomes antagonistic and defensive and blames you instead of taking responsibility for his own performance?

Then, answers Dorn, give the subordinate some feedback about the way he handles feedback.

—Sharon Nelton



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Where I Stand

Key Washington decision makers will be informed of your views on these important business issues.

1 Mandate Health Benefits For Ex-Spouses?

Congress is considering a bill to strip businesses of their tax deduction for payments to employee health benefit plans if such plans do not extend coverage to divorced spouses of employees. Advocates say it is only fair that the coverage be extended, since most of the ex-spouses (nearly all, women) are insured through employer-based plans. Foes say such a law would boost insurance premiums and be a burden to administer. Should firms have to pay to insure employees' ex-spouses?

2 A Break For Small Business?

Capitol Hill is awash with proposals to "reform" the tax code. One approach would wipe out the existing system of graduated corporate tax rates on annual income of less than \$100,000. It would be replaced by a single flat rate of about 35 percent. Big companies could pay less tax. But critics say this version of "reform" would stunt entrepreneurship because most firms could end up paying more. Should graduated income taxes be retained for small business?

3 Incentive For Employee Education?

When Congress raised taxes last year, it slapped a tax on the cost of benefits employees get when an employer pays for educational assistance. Congress apparently decided that tax revenue was more important than encouraging education. Late last year critics persuaded Congress to think twice—it restored employer-paid tuition's tax-exempt status for a year. Now Congress must vote again on whether to continue that status. Should employees get a tax incentive for more education?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

Verdicts On Fiscal Plan, Youth Pay, "Rule of Two"

Here is how readers responded to the questions in the May issue's Where I Stand poll. Results of each monthly poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
1 Should Congress adopt the Reagan-backed deficit reduction plan?	89.2%	8.6%	2.2%
2 Should a youth minimum wage bill be passed this year?	87.2	10.7	2.1
3 Should the "Rule of Two" for small firms be continued as is?	44.7	31.6	23.7

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Making Yourself Understood Abroad

ENGLISH is the language of international business. Although that should give American business people a jump on the world competition, there is one small problem: Most foreign business people do not understand American English.

In a study of U.S. executives with international business experience, the Parker Pen Company found that idiomatic American English can lose business for the person using it. The Parker survey of more than 200 executives suggests reasons why, and a series of do's and don'ts for Americans who want to flourish in the international market.

Americans love slang, colloquialisms, sports talk and jargon, but foreign business people usually have learned the standard tongue from the English. And even the English have trouble understanding Americans.

For example, the report says, if you are making a major presentation and your company sends word that it plans to put on "a dog and pony show" for a potential client abroad, you had better explain in advance. Otherwise, your potential client may wonder why you have assigned an animal trainer to negotiate serious business.

Ordinary terms, as used by Americans, take on a vivid life that is simply incomprehensible to foreigners. The simple word "scratch" means, of course, "to scrape lightly with fingernails, to relieve itching." One respondent to the survey related this incident that made minds boggle in a restaurant in Japan:

"After a two-week, total immersion course in Japanese, an employee of an Asia-Pacific sales operation tried to order lunch by himself. Unknowingly, he had asked for both French fries and potatoes. When so informed by a colleague, he turned to the Japanese waitress and said: 'Scratch the potatoes,'" leaving her totally baffled.

As if that were not enough, consider the American slang term "made from scratch," or "scratch" as a synonym for "money."

Americans wanting to do business abroad should also avoid regional expressions, particularly Southern ones,



"Look, Ali, if you folks will play ball with my team, we can split home-run profits with double-play efficiency."

American sports metaphors can leave business people from other nations out in left field.

says the report. "A professor told of a situation in which a businessman from abroad was with a Texan when he said: 'You all come for another visit.' The visitor interpreted the expression to mean come back with more people next time."

The report also advises American business people to avoid bad language, off-color slang or sexual symbolism. And as a corollary, Americans should be wary of using "American" humor, which does not translate well. Says the report:

"A manager of the export division of Regency Electronics, Inc., tells of a foreign customer who expressed a need for 'fast delivery.' He said that from time to time their people came back with the breezy retort: 'So you want it like yesterday, right?' Inevitably, the customer response was: 'No, I don't need it yesterday... I need it serviced right now.'"

Seasoned business travelers advise those who would do business abroad to:

- Speak plainly, clearly and slowly.
- Use two languages, if possible, in

presentation and interpretations: yours and theirs.

- Confirm phone conversations by telex and discussions with written reports.
- Paraphrase what has been said and ask your counterpart to do so.
- Call recap meetings to discuss important items.
- Follow up any meeting with a written summary.
- Try to keep ideas separated; get across one point at a time.
- Use printed matter. It is easier for foreigners to read English than speak it.
- Have basic information about your product translated and in your customer's possession in advance of any meeting.
- Use visual aids.

The same business travelers advise you not to: use numerals without writing them out, rush negotiations, attempt to sell or "push" the American way of doing something, interrupt a foreigner when he or she is speaking, or bluff your way through something you do not understand.

They also advise against going for the quick deal and the fast buck. Plan to develop a long-term relationship with your foreign associates.

You can, say many of the respondents, avoid some problems by watching your foreign counterpart carefully and being considerate when he seems to be confused. Common signs of confusion: They nod and say "yes" at inappropriate times or look surprised.

Even though English is the international business language, the report says, you will go far if you learn some of the language of your counterparts. It will be appreciated, especially when you consider that they are giving you an advantage by using your language.

As one respondent said: "Although most of the world finds it necessary to learn English, I feel the American who takes the trouble to learn a foreign language will have an advantage over the one who does not."

Copies of the Parker study are available for \$5 from the Parker Pen Company Public Relations Department, P.O. Box 1616, Janesville, Wis. 53547.

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This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
APPROPRIATIONS	Congress should exercise spending restraint in action on 13 regular appropriations bills. Additional federal borrowing to pay for nonessential appropriations would increase the deficit and drive up interest rates.	Members of the House and Senate: Make the budget cuts agreed upon in the deficit reduction package. Do not jeopardize the recovery by passing bloated bills requiring more borrowing.
TAX REFORM/SIMPLIFICATION	Tax simplification will be a major issue this year. Many bipartisan proposals have been introduced, and congressional hearings are under way; business needs to be aware of the various options and the ramifications of each.	Members of the House and Senate: Carefully consider any proposed changes in the current tax law. Do not pass a tax increase under the guise of reform.
SUPERFUND	The current Superfund law expires September 30. The Senate Environment and Public Works Committee approved legislation that would increase funding to \$7.5 billion over five years; an administration proposal would limit funding to \$5.3 billion. The Environmental Protection Agency says it cannot effectively administer more than \$1 billion annually.	Members of the House and Senate: Support funding that the administration has proposed. Excessive funding will not solve the toxic waste problem. The Superfund should be structured to meet cleanup goals without unnecessary expense and inequitable taxes.
COMPARABLE WORTH	Supporters of comparable worth expect passage of legislation that would set a value for each job based on a point system determined by subjective evaluation. Bills have been introduced in both houses that would require the federal government to conduct a comparable worth evaluation of the federal work force.	Members of the House and Senate: Oppose government-mandated wage determinations that would interfere with the free market system and would be extraordinarily costly to implement. Free market factors will no longer determine wage levels if comparable worth legislation is adopted.
GROVE CITY	A February, 1984, Supreme Court decision, <i>Grove City College v. Bell</i> , dealing with the application of civil rights statutes to educational institutions, has triggered a major congressional battle over the statutes' expanded application to business and others.	Members of the House and Senate: Business would be subjected to new civil rights regulations if broad-based legislation is passed to overturn the Supreme Court decision. Oppose any legislation that would unnecessarily expand civil rights applications.
YOUTH DIFFERENTIAL	Legislation has been introduced that would permit employers to pay wages equal to 75 percent of the minimum wage to newly hired teen-agers between May 1 and September 30 through 1987. The need to provide job opportunities for youth is a critical problem that Congress has not addressed adequately.	Members of the House and Senate: Give teen-agers a better chance to find summer jobs by allowing employers to hire them at a slightly reduced wage. Not only will the teens have a chance to earn money, but, more importantly, they will get job experience.

A Long Overdue Amendment

Congress belatedly recognized in the early 1970s that federal spending was out of control. It also realized that it had no effective remedy.

The result was the congressional budget reform act, which, taxpayers were assured, would work for fiscal restraint and against deficits. At the time, the federal budget stood at \$295 billion with a deficit of \$4.6 billion. The cumulative national debt was \$486 billion.

After more than a decade's experience under the act, the budget is close to \$1 trillion, the deficit is more than \$200 billion, and the national debt has reached \$1.7 trillion.

Reform, indeed. The experience says much about prospects that Congress might someday impose real spending discipline on its own. For that reason, we find ourselves in rare disagreement with our longtime columnist James J. Kilpatrick. The issue is a constitutional amendment requiring Congress to adopt a balanced budget and limiting the lawmakers' power to raise taxes to achieve that balance.

In this month's column (page 6), Kilpatrick takes a strong stand against the amendment. We are equally strong in our support of it.

We make no claim that the amendment would drive Congress into a permanent state of fiscal responsibility. The amendment must be evaluated for its potential to force Congress to resist pressures responsible for the alarming growth of federal spending. These pressures come largely from narrow interest groups that initially win modest benefits from Washington, then form a united political force with enough power to win ever-higher benefits from Congress.

A balanced budget amendment would help break that cycle.

Lawmakers would find themselves restrained, not by easily amended statutes, but by the Constitution.

As economist Milton Friedman points out, the amendment would force special-interest groups, now united against the taxpayer, to compete against each other.

Given Congress' record on fiscal restraint over the past half-century, the amendment as currently proposed represents the most realistic course toward the long-range fiscal discipline essential to a healthy economy.

Tax Reform Must Be Handled With Care

In introducing his historic tax reform plan, President Reagan said: "I want to talk about... what we must do as a nation this year to transform a system that's become an endless source of confusion and resentment into one that is clear, simple and fair for all—a tax code that no longer runs roughshod over Main Street America." He said the code should assure "families and firms" of "risk-taking in an American future of strong economic growth."

The President called for radical change in "the structure of a tax system that still treats our earnings as the personal property of the IRS."

Those goals and the philosophy behind them have the overwhelming support of business people. Poll after poll has shown that the paper work burdens most resented by business are the burdens imposed by the Internal

Revenue Service. At the same time, business is not by any means ready to leap into any new arrangement put forward as a way of achieving simplicity and fairness in the tax system. Business people want to be sure that, in the President's words, those changes are based on "incentives and rewards for hard work and risk-taking."

As the national debate over tax reform develops, business will be examining all of the various proposals against that standard.

A simplified tax system has long been the goal of business people, particularly those running smaller enterprises, who must struggle with the mind-numbing tangle of the current tax code.

But simplification and reform, no matter how they may be defined, must not be achieved in a way that undercuts economic growth or threatens the existence of job-creating firms.



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